



# Financial Sector Development Program

## Program Charter 2021




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## List of Key Abbreviations

<b>AP</b>	Authorized Person
<b>AuM</b>	Assets under Management
<b>CAGR</b>	Compounded Annual Growth Rate
<b>CCHI</b>	Council of Cooperative Health Insurance
<b>CCP</b>	Central Clearing Counterparty
<b>CEDA</b>	Council of Economic and Development Affairs
<b>CMA</b>	Capital Market Authority
<b>DCM</b>	Debt Capital Markets
<b>NDMC</b>	National Debt Management Center
<b>ECM</b>	Equity Capital Markets
<b>ETF</b>	Exchange Traded Funds
<b>FDI</b>	Foreign Direct Investment
<b>FLE</b>	Financial Literacy Entity
<b>FSDP</b>	Financial Sector Development Program
<b>GAZT</b>	General Authority of Zakat and Tax
<b>GCC</b>	Gulf Cooperation Council
<b>GDP</b>	Gross Domestic Product
<b>GOSI</b>	General Organization for Social Insurance
<b>GWP</b>	Gross Written Premiums
<b>IDPS</b>	Integrated Digital Payment Strategy
<b>IPO</b>	Initial Public Offering
<b>JCC</b>	Job Creation Commission
<b>KYC</b>	Know Your Customer
<b>LDR</b>	Loan Deposit Ratio
<b>MEP</b>	Ministry of Economy and Planning
<b>MSME</b>	Micro, Small and Medium Enterprises
<b>MOCI</b>	Ministry of Commerce and Industry
<b>MoH</b>	Ministry of Housing
<b>MoI</b>	Ministry of Interior
<b>MoJ</b>	Ministry of Justice
<b>MoL</b>	Ministry of Labor
<b>NDU</b>	National Digitalization Unit

<b>NIDL</b>	National Industrial Development and Logistics Program
<b>NPL</b>	Non-performing Loans
<b>NSE</b>	National Savings Entity
<b>NTP</b>	National Transformation Program
<b>PE</b>	Private Equity
<b>PIF</b>	Public Investment Fund
<b>PMO</b>	Program Management Office
<b>PPA</b>	Public Pension Agency
<b>PoS</b>	Point of Sale
<b>REDF</b>	Real Estate Development Fund
<b>SDB</b>	Saudi Development Bank
<b>QFI</b>	Qualified Foreign Investor
<b>ROA</b>	Return on Assets
<b>SAGIA</b>	Saudi Arabian General Investment Authority
<b>SAMA</b>	Saudi Central Bank
<b>SME</b>	Small and Medium Enterprises
<b>SPP</b>	Strategic Partnerships Program
<b>SRC</b>	Saudi Real Estate Refinancing Company
<b>VC</b>	Venture Capital
<b>VRP</b>	Vision Realization Program



**Chapter**  
**1**

## Chapter 1

# Financial Sector Development Program

- A Financial Sector Development Program Description
- B Vision 2030 Objectives Directly Related to the Financial Sector Development Program
- C Vision 2030 Objectives Indirectly Related to the Financial Sector Development Program

# 1. Scope of Financial Sector Development Program

## A) Financial Sector Development Program Description

On April 24, 2017, the Council of Economic and Development Affairs (CEDA) launched ten delivery programs to realize Vision 2030. The most prominent of these programs is the Financial Sector Development Program (FSDP) that aims to develop the national economy and the remaining VRPs.

The FSDP’s objective is to create a diversified and effective financial services sector to support the development of the national economy, diversify its sources of income, and stimulate savings, finance, and investment. The FSDP will achieve this ambition by enabling financial institutions to support private sector growth, ensuring the formation of an advanced capital market, and promoting and enabling financial planning, without impeding the strategic objectives intended to maintain the financial services sector’s stability.

## B) Vision 2030 Objectives Directly related to the Financial Sector Development Program

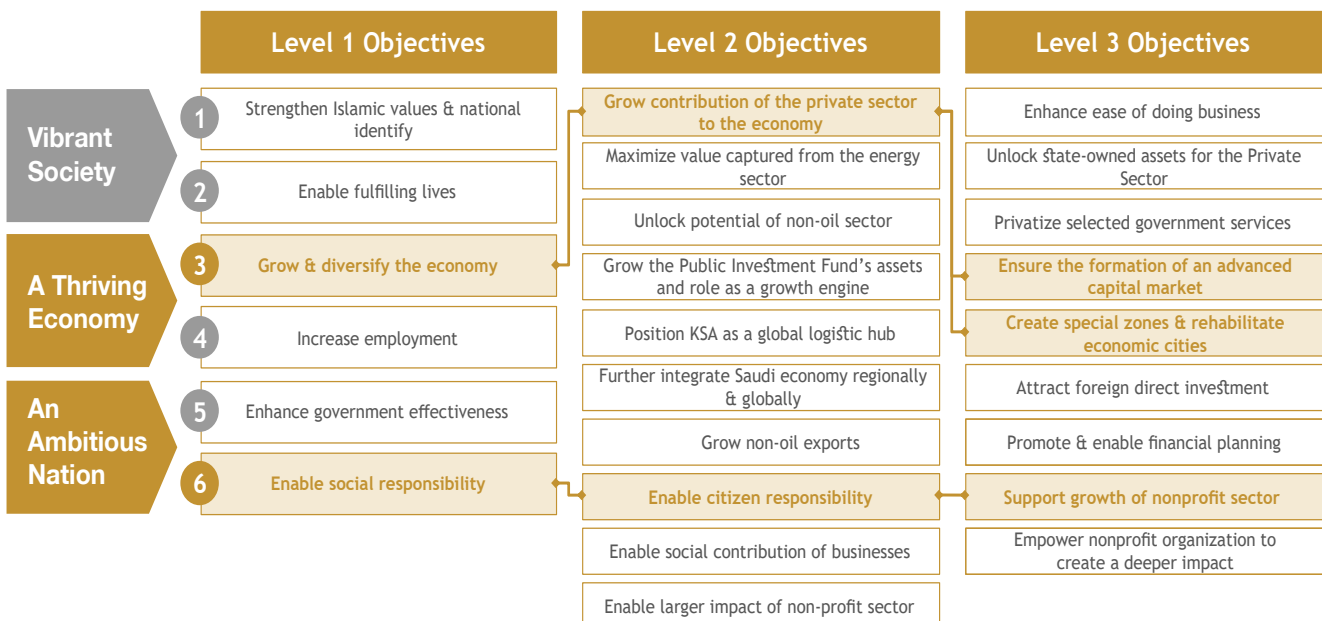
The FSDP contributes directly to three strategic objectives of Vision 2030:

**First Objective:** Enable financial institutions to support private sector growth

**Second Objective:** Ensure the formation of an advanced capital market

**Third Objective:** Promote and enable financial planning (retirement, savings, etc.)<sup>1</sup>


### Program Objectives related to Vision 2030’s Strategy



<sup>1</sup>) National Saving Strategy is being refreshed, the program charter will get updated once strategy refresh is completed

**The FSDP also indirectly contributes to 21 other Vision 2030 objectives**

1. Increase localization of the oil and gas sector
2. Grow and capture maximum value from the mining sector
3. Develop the digital economy
4. Localize promising manufacturing industries
5. Localize military industry
6. Enable the development of the retail sector
7. Enable the development of the tourism sector
8. Increase localization of non-oil sectors
9. Unlock state-owned assets for the Private Sector
10. Privatize selected government services
11. Push forward the GCC integration agenda
12. Develop economic ties with the region beyond GCC
13. Develop economic ties with global partners
14. Develop promising local companies into regional and global leaders
15. Grow contribution of renewables to national energy mix
16. Attract foreign direct investment
17. Grow SME contribution to the economy
18. Enable suitable home ownership among Saudi families
19. Support growth of non-profit sector
20. Increase localization of Oil & Gas sector
21. Unlock new sectors through the Public Investment Fund



**Chapter  
2**

Chapter 2

## **Financial Sector Development Program Aspirations**

A 2030 Aspirations

B 2025 Commitments

C Financial Sector Development Program Metrics and Targets

## A) 2030 Aspirations

The Financial Sector Development Program's objective is to create a thriving financial sector that serves as a key enabler in achieving Vision 2030 objectives. By 2030, the sector is expected to grow large enough to fund Vision 2030 objectives, offer a diverse set of products and services through traditional and newly emerging innovations, give previously excluded citizens access to the financial system with an inclusive structure, achieve a high degree of digitization and maintain financial stability.

First, in terms of size, the banking sector is expected to grow to achieve total banking assets of SAR 4.553bn in 2030 from SAR 2.631bn recorded in 2019\*.

Second, the sector is expected to undergo a transformational change in terms of diversification. The market value of the stock market as a percentage of GDP will increase to 88% in 2030 from 66.5% recorded in 2019 (excluding the Aramco IPO). On the other hand, The sector will also open its doors to emerging innovation (such as financial technology companies) to drive innovation and competition, and to reach 60 companies by 2030.

Third, the sector is expected to make progress to achieve an inclusive structure. The Program aims to increase the percentage of ownership of bank accounts among adults. The Program also aims to create a shift towards financing productive financial assets, such as lending to small and medium enterprises. Thus, increasing the share of financing SMEs from banks to 20% in 2030 compared to 5.7% in 2019.

Fourth, the insurance sector is one of the most important financial services sectors that supports all other economic activities and maintains their stability. There is a direct link and mutual influence between the development of insurance and the development of the economy in general. The contribution of the insurance sector to emerging economies has a direct impact on GDP growth. The Program aspires to increase gross written premiums as a percentage of Non-oil sector GDP to 4.3% by 2030 from 1.9% in 2019.

Fifth, the Program envisions a digital infrastructure that leads to a cashless society. Accordingly, the share of cashless operations will increase to 80% in 2030 from the 36% recorded in 2019. As a result, the sector will provide a superior customer experience and achieve higher operational efficiency.

Finally, the Program aims to maintain financial stability. This will ensure the sustainability of the sector in general in the long term and its continued empowerment of the financial sector. To achieve this goal, the Program is designed to comply with international standards of financial stability, including the requirements of the Bank for International Settlements and the International Organization of Securities Commissions.

\*2019 is used as the base year

## B) 2025 Commitments

The Program has defined a set of commitments for 2025 that will form the foundation for achieving 2030 aspirations.

First, to ensure the required growth in the financial services sector, the Program is committed to increasing the total assets of the banking sector to SAR 3.515bn by 2025 compared to SAR 2.631bn recorded in 2019.

Second, in order to further diversify the structure of the financial services sector, the Program is committed to increasing the market value of the stock market as a percentage of GDP to 80.8% compared to 66.5% recorded in 2019 and the volume of debt instruments as a percentage of GDP to 24.1% by 2025 compared to 14% recorded in 2019. In addition, the financial services sector has permitted digital innovation (such as financial technology companies) to drive innovation and competition. The sector issued licenses for a number of Fintech companies in the field of payments, in addition to licensing companies in other fields such as insurance, financing and others.

Third, in order to enhance the ambitions of inclusiveness in the financial services, the Program is committed to increasing the share of SMEs financing in banks to 11% by 2025 compared to 5.7% recorded in 2019.

Fourth, in order to develop a sustainable and thriving insurance sector in the Kingdom that contributes to supporting the growth of the private sector, the Program is committed to increasing gross written premiums as a percentage of non-oil GDP to 2.4% by 2025 compared to 1.9% recorded in 2019.

Fifth, with a view to achieving the ambitions related to digitization, specifically the cashless community, the program is committed to increasing the share of non-cash transactions to 70% by 2025 compared to 36% recorded in 2019.


Finally, in order to ensure overall financial stability for the financial services sector, the program adheres to international standards related to financial stability, including the requirements of the Bank for International Settlements and the International Organization of Securities Commissions.

## C) Financial Sector Development Program Metrics and Targets

### Program Metrics

Metric type	Metric name	Baseline*	2020	2021	2022	2023	2024	2025
"Enable Financial Institutions to Support Private Sector Growth" metrics	Banking sector assets (SAR bn)	2.631	2.905	3.111	3.156	3.337	3.433	3.515
	Credit to private sector, B SAR	1510.7	1598.6	1669.7	1750.2	1878.5	1956.4	2053.2
	Total GWP to GDP non-oil, %	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.4%
	Number of Fintech players	-	3	10	15	20	25	30
	SMEs loans as % of bank loans	5.7%	6%	7%	8%	9%	10%	11%
	Life GWP per capita, SAR	33	40	41	42	43	44	45
	Coverage ratio of health insurance schemes, %	33%	35%	37%	39%	41%	43%	45%
	Coverage ratio of motor insurance schemes, %	39.6%	48%	54%	60%	66%	71%	77%
	Share of non-cash transactions, %	36%	49%	55%	60%	63%	66%	70%
	Value of investments in private equity and venture capital (SAR bn)	9.304	9.578	9.879	10.211	10.576	10.978	11.404

Metric type	Metric name	Baseline*	2020	2021	2022	2023	2024	2025
“Ensure Formation of an Advanced Capital” metrics	Number of listing in Capital Market	6	16	20	24	24	24	26
	Total market capitalization (shares) as % of GDP	66.5%	72%	75%	77%	78.1%	79.4%	80.8%
	Debt as % of GDP	14%	15.6%	17.2%	18.7%	20.1%	22.1%	24.1%
	Assets under management, as % of GDP	16.9%	22%	23.8%	25.6%	27.4%	29.4%	31%
	Foreign investor ownership of the equity market cap (free float), in %	36%	37%	38%	40%	41%	42%	44%
	Foreign investor ownership of the equity market cap, in %	13.3%	14%	15%	16%	16.5%	17%	17.5%
	Number of micro and small cap companies listed, as % of total number of companies listed	40.9%	41%	42%	43%	44%	45%	46%
	Share of investment accounts opened through eKYC, %	82.00%	=>70%	=>70%	=>70%	=>70%	=>70%	=>70%



**Chapter  
3**

## Chapter 3

### **Current Status**

A Major Challenges

B Current Efforts

C Global and Local Trends in the Financial Sector

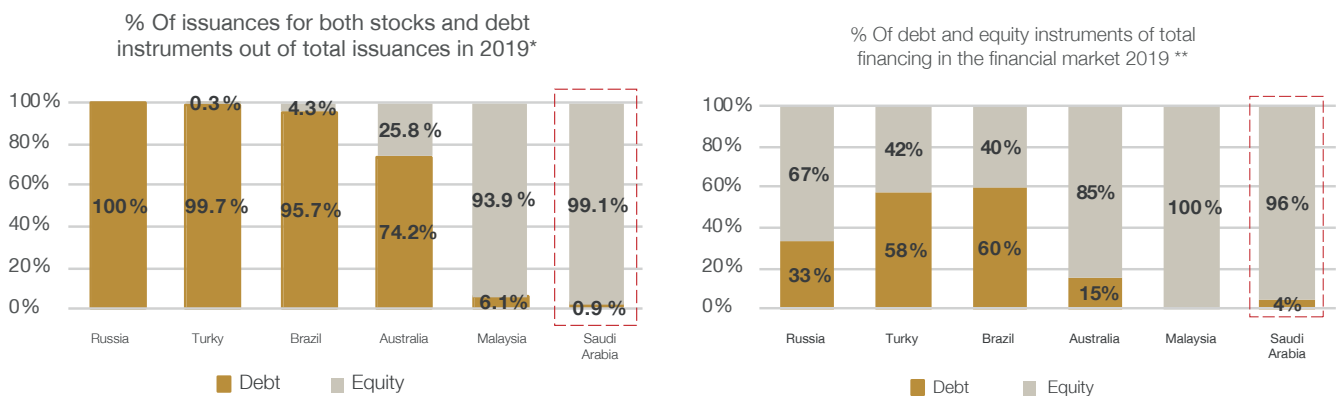
### 3. Current Status

Prior to designing the Program's strategy, the current situation was studied from two primary angles: first, major challenges facing the financial services sector; second, on-going transformation efforts that are aligned with Program aspirations. This section provides details on both of these aspects.

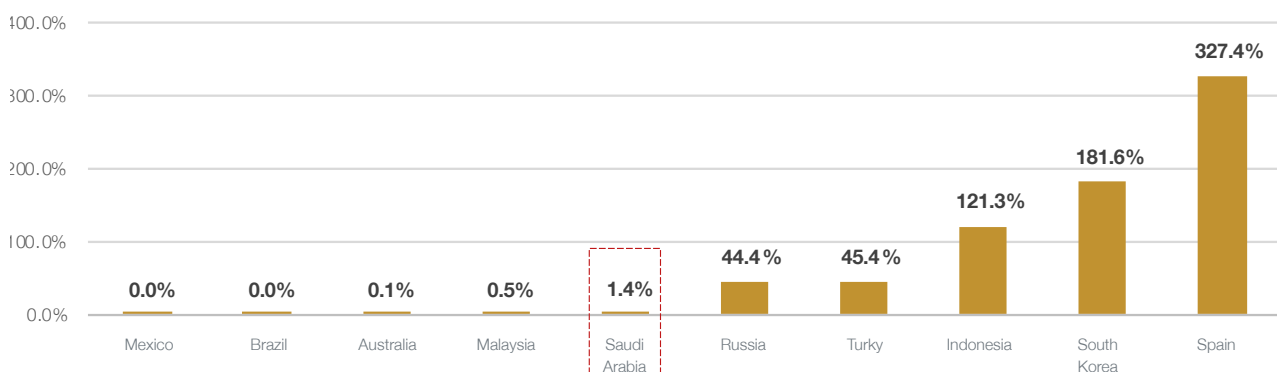
#### A) Major Challenges

##### I. High Dependence on Bank Financing

Financial Services are mainly driven by bank financing. The volume of financing granted by the stock market and the debt instruments market was SAR123bn during 2019, compared to the size of the existing bank financing, which amounted to SAR1.553bn at the end of the year 2019<sup>1</sup>.



##### % The traded value of debt instruments (turnover rate)



\* The ratio of debt instruments issues listed in the markets (public offering) was calculated, and the ratio of stock issues to total issues (stocks and debt instruments).

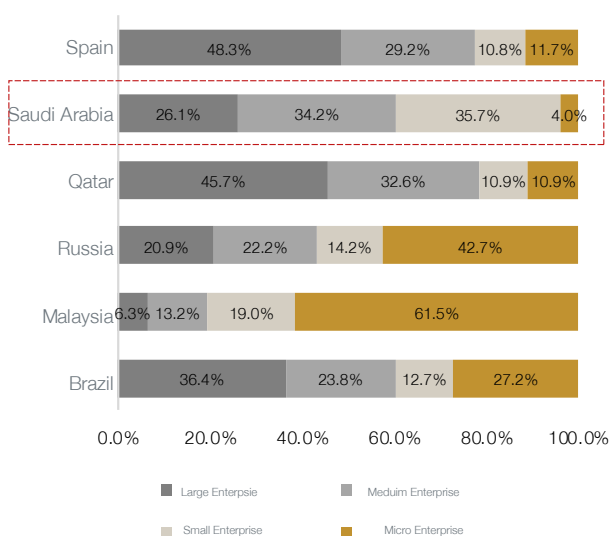
\*\* The ratio of shares (market value) and existing debt instruments to total market value was calculated in addition to the issues of existing debt instruments.

Note: Issuances of debt instruments listed in the market (public offering) and does not include the private offering traded outside the platform (OTC)

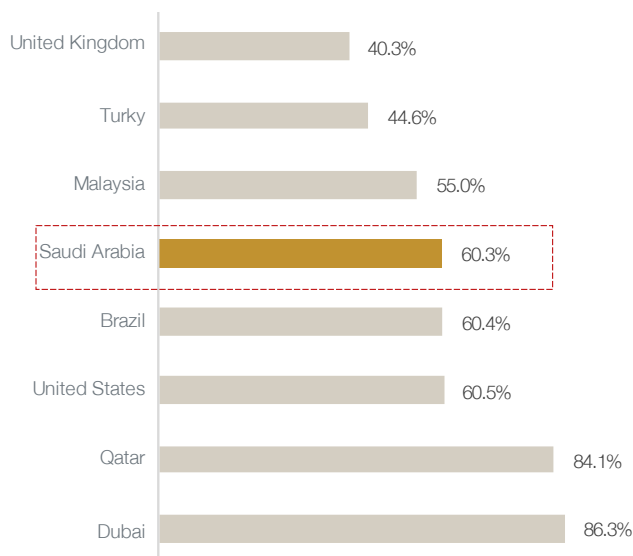
In general, the debt instruments market in the Kingdom appears to be limited in size and lacking liquidity.

There is a large concentration in the stock market, as the total market value of SABIC and the banking sector is greater than 49% of the total market value of the stock market by the end of 2019. The Program aims to address this challenge to diversify the sector in a method similar to other comparative countries<sup>2</sup>.

% of Companies According to Their Size for Listed Companies for a Number of Countries in 2019\*\*



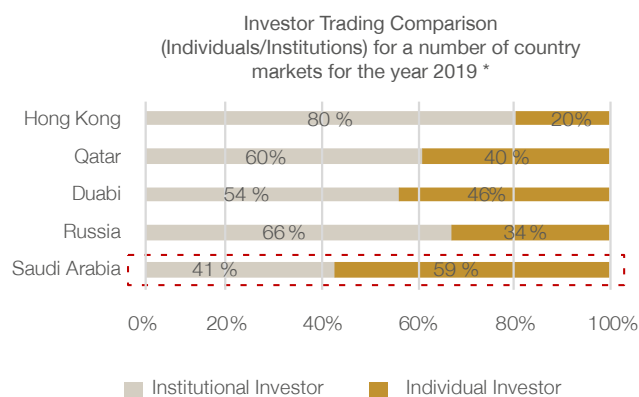
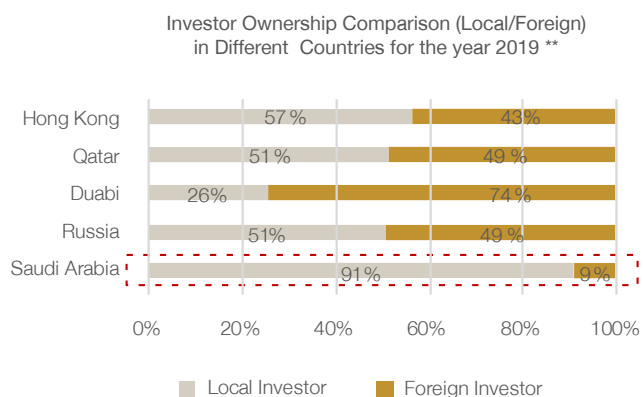
% Concentration of the top ten listed companies in a number of countries for the year 2019 \*



<sup>2</sup> Charts Sources: World Federation of Exchanges (WFE)  
 \* Excluding the influence of Aramco  
 \*\* Leading companies: Market value exceeds \$ 1.3 billion  
 Average Enterprises: Market Cap between \$ 200 Million and \$ 1.3 billion  
 Small businesses: Market value between \$ 65 million and \$ 200 million  
 Micro Enterprises: Market Value Less than \$ 65 Million USD

Compared to regional counterparts, Saudi Arabia has a relatively high net concentration of the top ten stocks, according to market capitalization, but the number of shares of the top ten stocks is relatively limited.

Moreover, Saudi Arabia has a relatively new asset management industry. The ratio of assets locally managed is 16.9% to GDP in 2019. This also affects the nature of trading activity in the stock market, as the share of institutional investment trading is low, at 41% in 2019<sup>3</sup>.

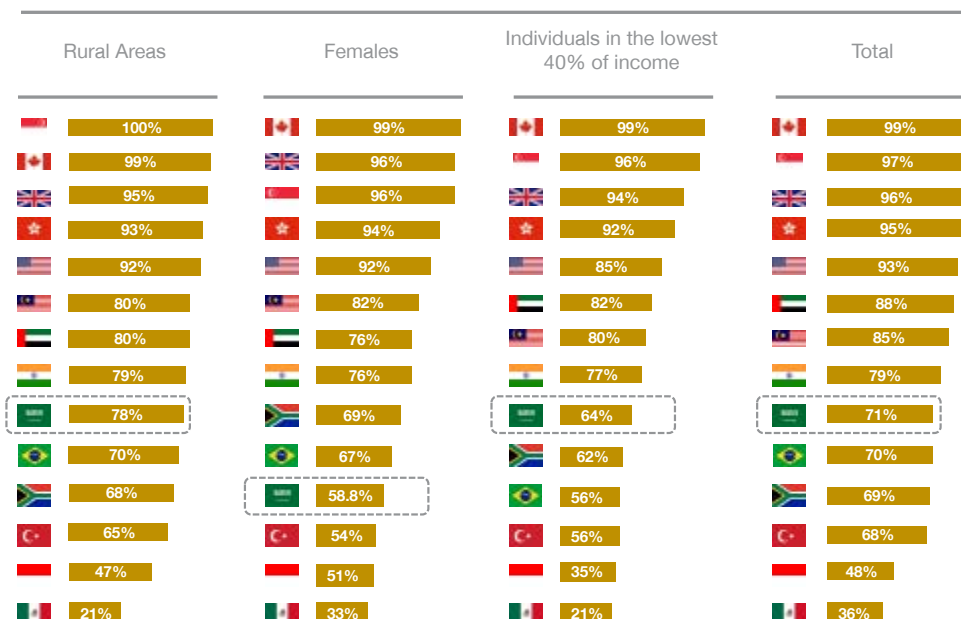


<sup>3</sup> Charts Sources: Capital Market Authority, Saudi Tadawul Group  
 \* Data for the Kingdom of Saudi Arabia as of 2019  
 \*\* Data for Saudi Arabia as of 2019, with the exception of Aramco's influence

## II. Gaps in Financial Inclusion and Productive Financing

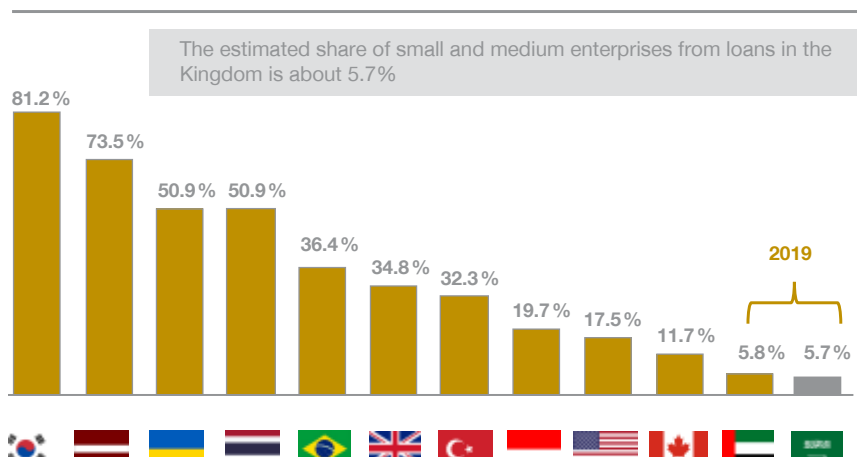
One of the key success factors for a thriving financial sector is its ability to serve the economy. In 2018, the percentage of adults who own a bank account in Saudi Arabia reached 71%, while developed markets recorded an inclusion rate of more than 90%. More specifically, the percentage of financial inclusion among adult women is 58.2%, and the percentage of financial inclusion among men and women reached 78.8% in remote areas in 2017.

Saudi Arabia lags behind its peers in terms of the share of account holders in formal financial institutions



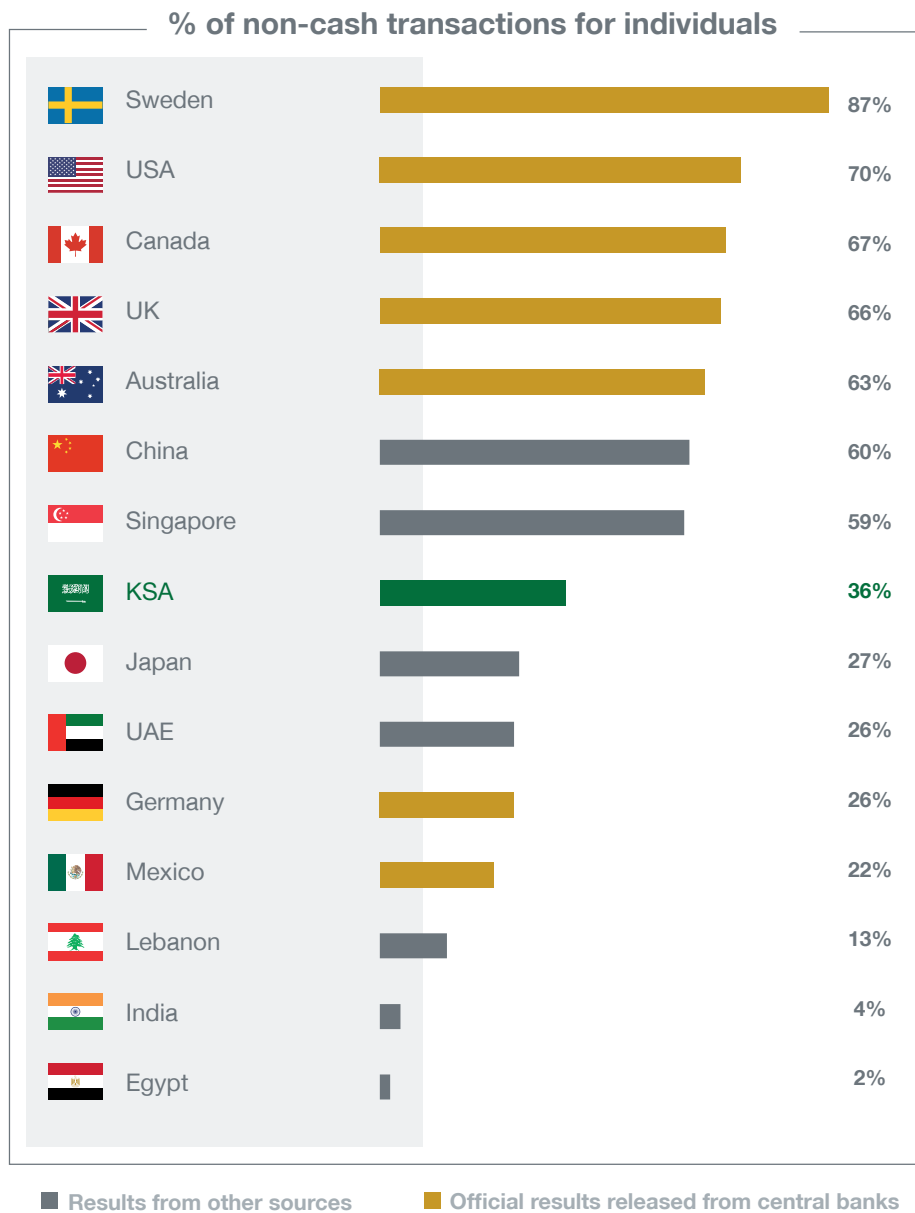
The Financial Services sector also has room for significant improvement in providing financing to SMEs and increasing the penetration of mortgages through banks. By the end of 2019, the percentage of small and micro-level enterprises financing reached 5.7% of the total financing portfolio of the banking sector. Fostering development of certified credit bureau agencies and rating firms would improve risk assessment capabilities in the Kingdom.

Small and medium enterprises loans as a percentage of bank loans (2018)



### III. Evolving Infrastructure for Digitalization

Similar to most other sectors, the financial sector is rapidly changing toward a higher level of digitalization. While Saudi Arabia has invested heavily in various components of technical infrastructure (e.g., payments infrastructure), significant improvement is still possible in the use of this infrastructure toward a cashless society. In 2019, the share of non-cash transactions stood at 36%.



### IV. Global Financial Technology Indicators

IFZ Global FinTech Rankings	EY Global FinTech Adoption Index	The Global FinTech Index	GFC Index	IMD Digital Competitiveness
1. Singapore/Singapore	1. Beijing/China	1. San Francisco/USA	1. New York/USA	1. USA
2. Zurich/Switzerland	2. San Francisco/USA	2. London/UK	2. Beijing/China	2. Singapore
3. Geneva/Switzerland	3. New York/USA	3. New York/USA	3. Shanghai/China	3. Sweden
4. London/UK	4. London/UK	4. Singapore/Singapore	4. London/UK	4. Denmark
5. Amsterdam/Netherlands	5. Shanghai/China	5. Sao Paulo/Brazil	5. Singapore/Singapore	5. Switzerland
6. Toronto/Canada	6. Hong Kong/Hong Kong	6. Los Angeles/USA	6. Shenzhen/China	6. Netherlands
7. Stockholm/Sweden	7. Shenzhen/China	7. Bangalore/India	7. Hong Kong/Hong Kong	7. Finland
8. New York/USA	8. Chicago/USA	8. Boston/USA	8. Guangzhou/China	8. Hong Kong
9. San Francisco/USA	9. Singapore/Singapore	9. Berlin/Germany	9. Tokyo/Japan	9. Norway
10. Hong Kong/Hong Kong	10. Hong Kong/Hong Kong	10. Mumbai/India	10. San Francisco/USA	10. Korea Rep.
KSA not profiled	KSA not profiled	232. Riyadh/KSA	KSA not profiled	39. KSA

### Leading Banking Regulators allow non-banking licences for Fintech companies

Country	PSP licence	E-money licence
KSA	✓	✗
Singapore	✓	✓
Hongkong	✓	✓
UK	✓	✓
Switzerland	✓	✓
USA	✓	✓
Canada	✓	✓
India	✓	✓

## V. Financial Literacy

A 2017 survey by the Organization for Economic Co-operation and Development (OECD) scored the level of financial literacy of adults in Saudi as 9.6 out of 21. This is low compared to similar countries, and the lowest within the G20.

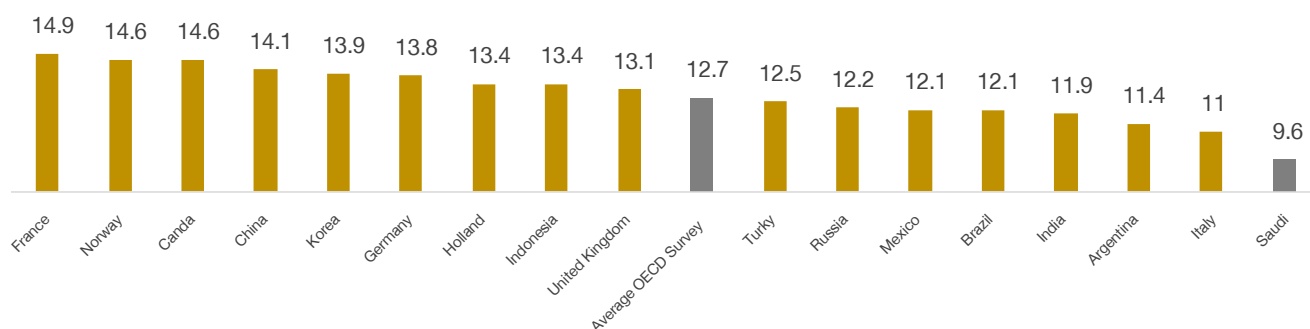
A number of studies conducted during 2014, 2016, and 2018 stressed the urgent need to improve and raise the levels of financial literacy among individuals in the Kingdom, in particular among young people between the ages of 19 and 29, who make up nearly 50% of the population. It was found that there are a number of financial behaviors that should be developed or corrected, including low levels of financial planning, which negatively impacts the ability to make sound financial decisions. Women on the one hand have lower levels of financial literacy compared to their male counterparts. Women also resort to saving through informal channels rather than formal channels, in addition to reduced awareness and knowledge of features, benefits, and concepts related to financial matters.

In 2019, an analytical study was conducted on the Programs and initiatives related to financial literacy in Saudi Arabia. The aim of the study was to measure the impact of these initiatives on the target groups, the content presented, and how to evaluate the success of these programs in influencing and changing individual behaviors to make better financial decisions. The study included a study of approximately 22 initiatives, which identified that most of these initiatives were implemented through awareness campaigns. The measure of success was focused on the number of attendees and the number of programs offered. However, these initiatives did not take into consideration assessing the impact it has on individuals in terms of changes in their behavior.

With reference to countries that have high rates of financial literacy, it is evident that there is high investment in supervision and follow-up on existing financial literacy initiatives and activities that contribute to changing financial behaviors. The Netherlands government for example has established “the Money Wise Platform”, which is an independent organization.

The organization aims to lead and coordinate the implementation of the National Financial Literacy Strategy in the Netherlands. It is implementing this strategy in partnership with the financial institutions, education sector, government sector, private sector and other educational institutions and non-profit entities.

Levels of adult financial literacy according to an OECD  
(2017) survey published



## VI. Challenges in the Banking sector

One of the most important challenges facing banks is the application of standards issued by international organizations and committees, including, but not limited to the standard IFRS9 «Financial Instruments». Banks also face a challenge in internal system development to help facilitate the process of providing products and services to customers, which they have to adhere to the relevant regulations and instructions such as the instructions of the National Cybersecurity Authority. In addition, competitors (payment companies) that also provide banking products, such as, digital card products and transfer services. These services are provided with lower fees than the banks. They also provide better features and advantages over conventional banking products.

## B) Current Efforts

In designing the Program, we have reviewed existing strategies and initiatives defined by the contributing entities of the Program. Currently, there are 297 initiatives planned or under implementation, including:

- 143 initiatives planned or under implementation defined across the 5 strategic programs of SAMA:
  - Banking vision
  - Insurance vision
  - Financing vision
  - Integrated payments strategy
  - National savings strategy
- 108 initiatives planned or under implementation defined by the CMA strategy,
- 22 initiatives planned or under implementation defined by the Ministry of Finance's Strategic Plan,
- 17 initiatives planned or under implementation defined by the SME Authority's SME Financing Strategy, and
- 7 initiatives planned or under implementation defined by the Ministry of Economy and Planning study on unlocking credit for the private sector.

We have reviewed the impact and ease of implementation of these initiatives, to define the Program's portfolio of initiatives.

## C) Global and Local Trends in the Financial Sector

The most prominent global and local trends affecting the securities service providers' sector:

### 1. The rise of FinTech

In the past few years, the financial services sector has greatly benefited from technological development to enable a more efficient market infrastructure and market access. From a global perspective, the FinTech market is growing rapidly, and governments began focusing on Fintech as a mean to diversify the economy and contribute to economic growth. The Central Bank has introduced many regulations and have launched a sandbox to regulate Fintech in the Kingdom.

### 2. The Emergence of Open Banking

- A. Open Banking has quickly developed from a mere concept some years ago to being a key driver behind the success of Payment Initiation Services. Open Banking is linked to the European Parliament's issuance of payment services directives amended (PSD2) in 2015, which aims to revolutionize the payments industry through Open Banking services, and which took effect in 2018. In the same year, the issuance of the European General Data Protection Regulation (GDPR) contributed to providing customers the choice in sharing their personal data and requiring companies that store or use customer data to meet several criteria and measurements to protect customers and prevent fraud risks. It is worth noting that the main goal of the European Union was to increase competition and innovation in the banking sector.

This was followed by the United Kingdom (UK) application for Open Banking services, which made it one of the leading countries in the field. The UK has issued a directive to compel large banks to share clients' data within a specified period of time with third-party entities licensed by the Financial Conduct Authority (FCA), which provides open banking services and follows specific standards and specifications. Other countries have launched initiatives to adopt Open Banking based on the models implemented in the European Union and the United Kingdom. Some countries have adopted the compulsory approach, such as Australia and Bahrain. While other countries have adopted the cooperative approach, based on providing legislative authorities with guidance and standards for sharing data, and technical specifications without requiring banks to share customer data, such as Singapore and Hong Kong.

- B. The Saudi Central Bank (SAMA) announced the issuance of the Open Banking policy, which, if applied, will enable bank customers to manage their bank accounts, and share data securely, and allow third-party service providers to access customers' banking information with their consent. Customers can benefit from the best financial products and services, have all of their accounts in one control panel, and have access to user-friendly banking activities. SAMA has also looked at international experiences in implementing open banking and gathered opinions of participants in the local financial sector.

The aim of the study was to assess the potential impact of Open Banking on the Saudi financial sector, and to determine the most appropriate approach to apply it in Saudi Arabia. SAMA is implementing three phases for the adoption of the Open Banking initiatives; the design phase, the implementation phase and finally the release phase. Through these phases, SAMA will work with participants from the financial sector to build an Open Banking system, and reach the optimum framework to meet the needs of stakeholders in the sector.

### **3. Advances in Technology**

The fields of investment, trading, and financial markets have witnessed a tremendous advance in technology in recent years. There are new and various forms of investment and trading in the financial sector, such as the alternative investment sector that has witnessed emerging technologies, most notably Blockchain technology. This development is expected to continue and raise the demand for big data, advanced analytics, and Cloud services in the upcoming years.


### **4. High Demand for Environmental, Social Governance and Corporate Governance (ESG)**

Sustainable investment has become a priority in the global agenda. There has been a rise in the investments in environmental, social governance, and corporate governance (ESG) and related risk policies. It has even become a necessity to define and develop corporate sustainability strategies, and it is part of the agenda of global governments.

### **5. Automating the insurance sector**

The world is currently witnessing a remarkable development in the insurance sector driven by financial technology. These changes provide technical and innovative solutions to improve the experience of beneficiaries, stakeholders and legislators. Many technical services have developed in insurance vehicles, such as, enabling the filing of accident claims or estimating the costs of traffic accidents, and the submission of objections, online or via applications. This is in addition to technologies that assess the quality of the driving behavior and provides discounts for safer driving (Telematics). The use of artificial intelligence in the sector is helping improve insurance services for the beneficiaries.

The Central Bank of Saudi Arabia (SAMA) granted approvals for the trial operation of several insurance brokerage firms in 2018 to keep pace with the accelerating global trends. The rules, issued in 2020, overcome the regulatory challenges of the development of electronic insurance business activities and facilitate the entry of entrepreneurs under a guaranteed regulation while preserving the rights of the beneficiaries.



# Chapter 4

## Chapter 4

### **VRP Strategy**

A Strategic Pillars

B Strategic Considerations

C Tradeoffs and interdependencies with other VRPs

## 4. VRP Strategy

This section summarizes the Program's execution strategy and how the aspirations and commitments will be realized. This section comprises of strategic pillars and strategic considerations, as well as expected tradeoffs at the Program level.

Several subsectors fall under the Financial Sector Development Program, including banking, insurance, investment, equity and debt markets. It is worth noting that the Program through its initiatives focuses on all of these sub-sectors.

Many global and local trends were taken into consideration when designing the FSDP strategic plan, and the effects of these trends on the global and local financial sector. Some of these trends include the growing demand for financial products and services in compliance with Islamic law, the technical variables for global financial securities trading and bonds, and the increase in the number of electronic transactions and their impact on the sector and its infrastructure. In addition, targets and initiatives have been reviewed and rescheduled based on current and expected impacts on the financial sector from the health pandemic (Covid-19).

The strategy seeks to infrastructure for the financial sector, in particular focusing on legislation. The Program also aims to further deepen the debt instruments market and the stock market by providing for more diversified investment options at the government level and the private sector. The Program strategy aims at empowering financial institutions (such as banks, insurance companies, investment companies, etc.) to support the growth of companies and institutions in the private sector. The Program strategy at the current stage does not focus on financing provided by specialized governmental credit institutions, such as, the National Development Fund, the Industrial Sector Development Fund, the Agricultural Development Fund, etc.), and ensuring that the financial instruments provided by these institutions have no duplication with the current strategy.

**The strategy of the Program includes the sub-sectors that are supervised by local legislative bodies, which are:**

1. The Banking System and its Subsectors: The FSDP strategy includes preserving the soundness and durability of the banking system and its sub-sectors, which includes, retail banking, financing, and savings and savings products. The inclusion of the banking sector in the FSDP strategy plan helps identify and evaluate various risks, measure and deal with risks, monitor capital and the levels of liquidity and the profitability of the sector, in addition to stress tests of the banking sector and monitoring indicators. This will ensure soundness and the ability to withstand shocks. The inclusion will also help implement technological advancements and adoption in the banking sector and encourage banks to use technology to deliver banking products and services.
- 2 Insurance Sector and its Sub-sectors: It includes insurance companies, reinsurance companies, support service companies (such as insurance and reinsurance brokerage firms, and insurance agency companies).

3. Finance Sector and its Sub-sectors: The FSDP strategy includes developing and promoting the growth of the finance sector and providing innovative solutions and various products that serve all groups. These products include mortgage finance, non-real estate financing activities, financing micro-activities, re-investment real-estate finance, insurance claim settlement, and actuarial services companies.
4. Payments and Fintech Sector: One of the main objectives of FSDP is to develop and promote the growth of the payments sector and to encourage technological innovations to provide reliable solutions for services and products for all business segments and improve user experience. This includes payment systems and companies that engages in e-wallet activities and point-of-sale and payment accumulation activities for online merchants, invoices or financial transactions, sharing account information, or handing out payment orders.
5. The Saudi Tadawul Group is a parent company with four subsidiaries: the Saudi Exchange, a dedicated stock exchange business (previously known as the Saudi Stock Exchange Company - Tadawul), the Securities Clearing Center Company (Muqassa), the Securities Depository Center Company (Edaa), and Wamid. CMA has the authority to conduct Tadawul's business and set and clarify regulations related to it. CMA requires licensing for listed companies that practice trading, depository, or clearing, providing their legal status as joint stock companies.
6. Licensed Market Institutions: The Capital Market Authority (CMA) regulates the business of licensed market institutions and determines the procedures and conditions to carry out their services. CMA issues the rules and provisions of conduct that licensed market institutions must abide by, and rules related to supervising procedures and provisions related to client's funds and assets.
7. Companies Listed on the Financial Market: The Capital Market Authority (CMA) sets the rules and standards that companies comply with to ensure compliance with best governance practices that ensure shareholders and stakeholders rights are protected.
8. Dealers and Shareholders in the Financial Market: The Capital Market Authority (CMA) seeks to raise and enhance the level of awareness of the financial market system and its regulations and raise the level of financial and investment culture. These efforts will contribute to increasing levels of confidence, increasing the knowledge and skill to manage investment tools, and raising public awareness of their public and private rights, which are guaranteed by law and regulations.
9. Special Purpose Establishments: Special purpose establishments are companies licensed to issue debt instruments regulated by special purpose enterprises rules and regulations. These special purpose entities act as an independent legal entity and ends its services upon the conclusion of its purpose of establishment.

10. Credit Rating Companies and Agencies: The Capital Market Authority (CMA) regulates the practice of credit rating and monitoring agencies and determines the procedures and conditions for obtaining the necessary license.
11. Investment Products (Investment Funds): The Capital Market Authority (CMA) undertakes organizing the establishment and registration of investment funds supervising their offering, management and operations, and associated activities.
12. Fintech: The Capital Market Authority (CMA) is providing a simplified regulatory framework that helps support innovation in the financial technology sector in Saudi Arabia. The regulatory framework is designed to promote and develop financial technology to enable participants to present and test products, services, and business models related to financial technology within a specific period of time and requirements.
13. External Auditors: There are a set of standards and requirements that must be met by external auditors of the listed companies regulated by the Capital Market Authority (CMA). These standards and requirements include a registration requirement, conditions, and procedures, and continuing obligations on registered auditors auditing of listed companies and investment funds, excluding arrangement, or advising activities.

## A. Strategic Pillars

Vision 2030 objectives require three strategic pillars to build a thriving financial services sector:



### Summary of the main objectives of the strategic pillars:

Strategic Pillar	Main Objectives
<b>Enable Financial Institutions to Support Private Sector Growth</b>	<ol style="list-style-type: none"> <li>1. Enhancing the depth and breadth of the financial services and products offered</li> <li>2. Building an innovative financial infrastructure</li> <li>3. Managing risks through a thriving insurance sector</li> <li>4. Enhancing talent pool capabilities</li> </ol>
<b>Ensure the Formation of an Advanced Capital Market</b>	<ol style="list-style-type: none"> <li>1. Enhancing the role of the financial market in providing financing sources for the national economy</li> <li>2. Offering an efficient platform to encourage investment and diversify the investor base</li> <li>3. Providing a safe and transparent infrastructure (maintaining financial markets stability)</li> <li>4. Enhancing market participants' capacity and sophistication</li> </ol>
<b>Promote and Enable Financial Planning<sup>1</sup></b>	<ol style="list-style-type: none"> <li>1- Stimulate and bolster sustainable demand for savings schemes</li> <li>2- Drive expansion of savings products and channels available in the market</li> <li>3- Improve and strengthen the savings ecosystem</li> <li>4- Enhance financial literacy</li> </ol>

1) National Saving Strategy is being refreshed, the program charter will get updated once strategy refresh is completed

The Program has four key objectives to facilitate financial institutions support of private sector growth:

## **1. Main Objectives to Enable Financial Institutions to Support Private Sector Growth:**

### **i. Enhancing the depth and breadth of the financial services and products offered**

The Program will promote a diverse and inclusive sector that drives innovation and serves the financing needs of a broader population. In doing so, it will open the sector to emerging FinTech players, remove obstacles that hinder the growth of finance companies, and unlock financing for SMEs. Further, the Program will improve access to financing and enhance investment product offerings to support the development of the national economy.

### **ii. Building an innovative financial infrastructure**

The Program will promote innovation through implementation of the Integrated Digital Payment strategy to move to a cashless society, through digitalizing Know Your Customer procedures (KYC), and end-to-end digital processing in the banking sector. The Program will connect and empower service providers with financial services and payments infrastructure in a simple, convenient, and secure way. The enhanced infrastructure will provide banking solutions to a larger population and improve customer experience by adopting better technical standards.

### **iii. Managing risks through a thriving insurance sector**

The Program will develop a sustainable and a thriving insurance sector in Saudi Arabia. It will focus on strengthening the existing regulatory environment to address challenges in the insurance sector. These instructions will ensure further development and growth by increasing companies' ability to take risks. They will encourage companies to provide innovative technology solutions that contribute to facilitating the experience of beneficiaries and stakeholders.

### **iv. Enhancing capabilities of the talent force**

The Program will also enhance the professional and technical capabilities of existing talent to facilitate and provide innovation in financial services. This objective will be achieved through the Financial Sector Academy.

## **II. Main Objectives of Developing an Advanced Financial Market:**

### **i. Enhancing the role of the financial market in providing financing sources for the national economy**

The Program aims to diversify sources of funding for the government and private sector by further growing and deepening liquidity of the equity and debt capital markets. In doing so, the Program will encourage the planned privatization of state-owned entities through IPOs on the Saudi Stock Exchange. This action will increase equity market capitalization and further diversify investment options available for investors.

At the same time, the Program will seek to further deepen the debt capital markets in Saudi Arabia to provide alternative funding away from banking and equity.

Additionally, to further diversify alternative sources of available funding, especially for specific economic segments (e.g., start-ups, entrepreneurs, NGOs), the Program will emphasize the growth of private equity, venture capital, financing investment funds, and endowments.

### **ii. Offering an efficient platform to encourage investment and diversify the investor base**

Beyond simply increasing the liquidity available on equity and debt capital markets, the Program will further develop investment and trading strategies available to investors through the introduction of derivatives. It is believed that this action will further attract institutional investors, diversifying away from today's retail-driven market.

Furthermore, the Program will seek to attract foreign investors to bring capital into the economy, as it continues to diversify the investor base. It will do so by enhancing Qualified Foreign Investor access and the account opening process. Concurrently, the Program will establish co-trading linkage with selected developed markets to provide remote access to Saudi markets, thereby attracting further foreign liquidity into the Kingdom.

Moreover, the Program aims to establish the necessary environment to grow the asset management industry by further enhancing the capabilities of current players and attracting new players.

### **iii. Providing a safe and transparent infrastructure (maintaining financial markets stability)**

While developing key initiatives, the Program will put a strong emphasis on ensuring stability, security and transparency of its infrastructure to bolster investor / issuer confidence. In doing so, the Program will seek to further digitize the process of opening investment accounts to enhance the investor experience. Also, the Program will also enhance security informatics to ensure infrastructure stability and safety. Finally, the Program will focus on a clearinghouse peer-to-peer based, to upgrade the post-trade model and risk management model. In addition, the Program aims to develop the regulatory framework for the supervision and

control of infrastructure institutions (the capital market, the depository center, the clearing center), ensuring the commitment of the infrastructure institutions to the basic principles of the market authority and implementing the regulations, market rules procedures, and to ensure their effectiveness.

#### **iv. Enhancing market participants' capacity and sophistication**

Enhancing the capabilities and sophistication of market participants (e.g. investors, financial brokers) is often cited as a key area of focus to further develop Financial Services in Saudi Arabia. The Program will focus on enhancing local capacity, sophistication and capabilities by establishing a financial sector academy covering all sub-sectors to upgrade local skills and capabilities. In addition, the potential establishment of a regulatory entity to supervise the audit offices of listed companies will be assessed to ensure compliance with the highest standards of disclosures and transparency.

### **III. Main Objectives to Encourage and Enable Financial Planning (Savings and Other Products)<sup>1</sup>**

The objectives of the National Saving Strategy are to enhance the saving culture in Saudi Arabia. The Financial Literacy Strategy was released in 2019 with the objective of improving financial behaviors. In 2020, The National Savings Strategy was updated to address the causes of the low levels of saving in Saudi Arabia through raising and improving financial levels and financial behaviors. To achieve this, the National Saving Strategy and the Financial Literacy Strategy were merged under (National Savings and Financial Literacy Strategy). The objectives of the strategy are to help individuals make sound financial decisions, achieve financial well-being, and access to personal financial tools. The strategy will also develop supportive regulatory and legislative frameworks that will support the promotion of a saving culture. It will also provide easy access to various financial products and services. In addition it will provide the means of effective communication and coordination between the main stakeholders. Note that the strategy is under review and pillar three will be updated with the approved strategy.

1) National Saving Strategy is being refreshed, the program charter will get updated once strategy refresh is completed

## B. Strategic Considerations


Topic	Description	Decision taken
Financial stability	We considered various scenarios to achieve growth while maintaining overall stability of the sector	The Program carefully considered the financial stability implications of the level of growth to target in the banking sector. The global financial crisis and past crises in developing nations show that inability to balance banking growth with stability will impose significant downside risks to the economy in the medium to long-term. As such, the Program will comply with international standards of stability to monitor and maintain the health of the sector. In order not to risk the achievement of Vision 2030 targets, the Program will diversify the sources of funding by deepening the debt and equity capital markets. In addition, the Program supports the independence of the regulatory bodies in conducting their supervisory role of the sector.
Introduction of sophisticated capital market products	The Program considered the right time for introducing sophisticated capital markets products (i.e., derivatives)	One of the main objectives of the Program is to diversify the asset classes available for investors in the capital markets. However, currently retail investors heavily contribute to market trading and institutional capabilities are yet to be built. As such, the Program decided that derivatives should be introduced in a gradual manner starting with simpler instruments and after the setup of a relevant risk management infrastructure (i.e., central counterparty) and the financial sector academy, which will provide necessary training for market participants. Meanwhile, the Program is supportive of the current ETF program in place at Tadawul to diversify the asset classes.
Digitization	Digitization of the banking sector	Digitization in the financial sector is one of the main objectives of the Program as it will help provide convenience to customers as well as job creation in the sector.
Financing small and medium enterprises (SMEs)	Enabling the growth of specialized financing for SMEs	The Program analyzed the financing for small and medium enterprises, in particular the regulations that enable specialized entities in financing SMEs. The Saudi Central Bank regulates specialized financing entities such as specialized banks in lending or financing SMEs. The Program took into consideration the establishment of a SMEs government bank.

### C. Tradeoffs and Interdependencies with other VRPs

The financial sector development program team has defined potential tradeoffs and interdependencies with other VRPs in order to obtain the leadership's guidance toward resolving them. These tradeoffs and interdependencies are detailed as follows:

Interdependencies	Relevant programs	Strategic decisions
Developing the mortgage sector	Housing	Alignment with the Housing Vision Realization Program to focus efforts to introduce affordable mortgage guarantees and housing construction and to provide a refinancing market to support the development of the mortgage sector.
SME empowerment	NTP, Housing, NIDL	Various programs depend on empowering SMEs. By providing access to financing, FSDP enables the empowerment of the SME sector. Meanwhile, FSDP depends on the SME Authority for improving the supply and nurturing of creditworthy SME businesses.
Business environment development	PIF, SPP, Privatization, National Companies, Housing and NIDL	FSDP will improve access to financing and diversify funding opportunities for the private sector. Several programs will benefit from these activities.
Capital market development	PIF, SP, Privatization, National Companies, Housing and NIDL	Development of an advanced capital market will enable various programs to achieve their funding and financial enablement objectives with more diversified funding instruments.

Tradeoffs	Relevant program	Strategic decisions
Financial planning and focus on savings	NTP	Increased focus on savings might negatively impact economic growth in the short-term as citizens divert away from consumption. However, long-term the impact will stabilize and will support productive growth.



**Chapter**  
**5**

## Chapter 5

### **Initiatives Portfolio**

- A Initiatives Portfolio
- B Completed Initiatives
- C Detailing Game-Changers

## A. Initiatives Portfolio

The Program's aspirations, commitments, strategic pillars and strategic considerations have been translated into a number of initiatives to help achieve commitments made by the Program. These initiatives also constitute a foundation on which the aspirations of KSA Vision 2030 shall be achieved.

The current relevant program initiatives and responsibilities held by various entities have been reviewed and linked to the strategic pillars.

Additionally, initiatives were designed according to a comprehensive review of the Program's requirements, and a thorough review of global best practices. The most suitable alternative was selected to make up a portfolio of initiatives, which are detailed below.

### Pillar 1: Enable Financial Institutions to Support the Growth of the Private Sector

Strategic Pillar : Enable financial institutions to support private sector growth (3.1.5)

Initiative name	Description	Leading entity	Expected impact	Program metrics impacted by initiative
Open financial services to new types of players	Enable market entry of new types of players (e.g. Fintech) to foster development of an innovative ecosystem in Financial Services, encourage entrepreneurship / job creation and bolster private sector competition to drive innovation and service quality	The Saudi Central Bank (SAMA)	Increase number of licensed Fintech players to minimum of 30 by 2025	1) Share of non-cash transactions 2) Number of FinTech players 3) Credit to Private Sector 4) Banking Sector Assets to GDP
Drive towards a cashless society	Enhancing the use of digital payment solutions by creating and developing innovative payment solutions to facilitate financial transactions of individuals and institutions from various sectors	The Saudi Central Bank (SAMA)	Share of non-cash transactions as % of total transactions: 70% by 2025	1) Share of non-cash transactions 2) Number of FinTech players

## Strategic Pillar : Enable financial institutions to support private sector growth (3.1.5)

Initiative name	Description	Leading entity	Expected impact	Program metrics impacted by initiative
Strengthen compulsory health insurance enforcement	Ensure the imposition of compulsory health insurance to curb fraudulent practices and further develop existing insurance sector (e.g., increased gross written premiums (GWPs), enlarged scale, lower cost-to-income ratio) through tighter supervision	The Saudi Central Bank (SAMA)	1) Increase the ratio of GWPs / non-oil GDP: 2.4% by 2025 2) Coverage ratio of health insurance schemes, 45% by 2025	1) GWPs / non-oil GDP 2) Coverage ratio of health insurance schemes
Strengthen compulsory motor insurance enforcement	Ensure the imposition of compulsory motor insurance to curb fraudulent practices and further develop existing insurance sector (e.g., increased GWPs, enlarged scale, lower cost-to-income ratio) through tighter supervision	The Saudi Central Bank (SAMA)	1) Increase the ratio of GWPs / non-oil GDP: 2.4% by 2025 2) Coverage ratio of motor insurance schemes, 77% by 2025	1) GWPs / non-oil GDP 2) Coverage ratio of motor insurance schemes
Enhance existing insurance laws and regulations	Enhanced existing insurance laws; issuance of new laws; reconsideration of responsibility distribution among regulators in a manner that ensures amendment of the existing insurance law.	The Saudi Central Bank (SAMA)	1) Increase the ratio of GWPs / non-oil GDP: 2.4% by 2025 2) Coverage ratio of health insurance schemes, 45% by 2025	1) Motor insurance coverage ratio 2) Health insurance coverage ratio 3) GWPs / non-oil GDP
SMEs Indirect lending	Government indirect lending provides the ability to leverage the network of Non-Banking Financial Institutions to extend loans to targeted SMEs, through low-cost financing and refinancing. This will improve the availability of funding sources for SMEs, in turn, assisting in improving their operations and investment	SMEs Bank	Increase SMEs loans as % of bank loans to 11% by 2025	1) Banking sector assets to GDP (%) 2) Credit to Private Sector 3) SME loans as % of bank loans
Increase the capital and support the transformation of Kafalah Program	The Kafalah Program is being restructured to ensure its sustainability and continued successful support to the SMEs sector in the Kingdom	SMEs Bank	Increase SMEs loans as % of bank loans to 11% by 2025	1) Credit to Private Sector 2) SMEs loans as % of bank loans

Strategic Pillar : Enable financial institutions to support private sector growth (3.1.5)				
Initiative name	Description	Leading entity	Expected impact	Program metrics impacted by initiative
Government Venture Capital Fund for SMEs	Establishing a government venture capital fund that focuses on investing in Start-ups and SMEs in early growth stages and hence targets gaps in current financing for SMEs not covered by Fund of Funds	SMEs Bank	Support the growth of start-ups and diversify their sources of financing by increasing private sector investment in start-ups during their early growth stages	1) Credit to Private Sector
Enable and link service providers with the infrastructure of financial services and payments	Enable and facilitate linkage to the infrastructure of financial services and payments for licensed financial entities in a simple, appropriate and secure manner	The Saudi Central Bank (SAMA)	Increase the share of non-cash transactions to 70% of total transactions in 2025 Expand the index of the number of FinTech players to 30 companies in 2025	1) Share of non-cash transactions 2) Number of FinTech players
Facilitate electronic transactions for financing activities	Transform the finance sector into a smart financial sector and elevate and improve procedures for financing. This ensures effective and efficient use of resources and promotes financial inclusion	The Saudi Central Bank (SAMA)	Increase the private sector credit index to SAR 2,053.2 billion in 2025	1) Credit to private sector
Enact compulsory insurance in the commercial Sector	Support the insurance sector by enacting mandatory insurance provisions and incorporating them in the laws and regulations of government entities supervising risk-associated activities that require insurance coverage	The Saudi Central Bank (SAMA)	Increase the ratio of GWPs / non-oil GDP to 2.4 % in 2025	1) GWPs / non-oil GDP (%)
Promote innovation in the financial sector	Raise public awareness on the benefits of FinTech products and services in reducing costs and accelerating the pace of services while raising their standards to support the Kingdom's drive towards a cashless society	Saudi FinTech	Increase the number of FinTech companies and the number of solutions and small technology platforms, as well as increase the share of non-cash transactions and expand FinTech players index to 30 companies by 2025	1) Number of Fintech players

## Pillar 2: Developing an Advanced Financial Market

Strategic Pillar : Ensure the formation of an advanced capital market (3.1.4)

Initiative name	Description	Leading entity	Expected impact	Program metrics impacted by initiative
Listing of commercial government assets and companies in the financial market	Identify commercial state-owned assets and businesses and assess their ability to be listed in the financial markets, by providing the required support through the committee	MoF	Increasing the inclusion of State-owned assets with at least 4 government assets, which will contribute to: 1. Increase in the market value of equities as a proportion of GDP 2. Increase in the share of institutional investors in trading value 3. Increase in foreign investor ownership	1) Total market capitalization (shares) as % of GDP 2) Percentage of institutional investor's share of value traded 3) Percentage of foreign investor ownership of the equity market cap (free float)
Deepen debt capital markets	Encourage growth of existing debt capital markets to further diversify funding options for public / private sector and create new asset class for investors	CMA	Diversification of financing options for both the private and public sectors, creation of a new asset class for investors, diversification of lending and improving financial stability	1) Debt as % of GDP
Enable growth and expansion of Financing Investment Funds	Increasing amount of investment funds available, adding more funding streams to the economy	CMA	Increase size of investment funds	1) Assets under Management, as % of GDP
Collaborate with government funds to support asset management and custody activities of domestic APs	Allocating part of government-managed assets to be managed by local authorized persons	CMA	1) Increase Assets under Management as % of GDP 2) Improved capabilities of financial intermediaries	1) Assets under Management, as % of GDP

## Strategic Pillar : Ensure the formation of an advanced capital market (3.1.4)

Initiative name	Description	Leading entity	Expected impact	Program metrics impacted by initiative
Incentivize private sector on listing in the Saudi stock market	Motivating the private sector to be listed in the Saudi financial market to increase the proportion of GDP of the market to the Saudi economy	Tadawul	1) Increasing the number of listings in the Saudi stock market 2) Raise market value 3) Increase the number of awareness workshops to reach 120 workshops by 2025	1) Total market capitalization (shares) as % of GDP 2) Number of micro and small cap companies listed, as % of total number of companies listed 3) Institutional investor's share of the value in circulation 4) Percentage of foreign investor ownership of the equity market cap (free float) 5) Assets under Management, as % of GDP
Enabling the creation of financial market infrastructure institutions	Develop the regulatory framework for supervision and control of market infrastructure institutions (financial market, deposit center, clearing house) to include the tasks, responsibilities and methodology used in supervising and controlling the infrastructure institutions of the Saudi financial market	CMA	Improving the regulatory environment of financial market infrastructure institutions	1) Assets under Management, as % of GDP 2) Total market capitalization (shares) as % of GDP
Linking with international depository centers for the bond market	Linking global deposit center systems such as Clearstream and Euroclear in line with global practices, to support the debt instrument market in general and government bonds in particular	EDAA	Intensifying domestic market capacity by increasing the base of foreign investors and the demand for domestic debt instruments	1) Debt as % of GDP

## Strategic Pillar : Ensure the formation of an advanced capital market (3.1.4)

Initiative name	Description	Leading entity	Expected impact	Program metrics impacted by initiative
Facilitate securities transfers between key traders, their clients, and their subsidiaries for new issues	Develop settlement in local debt markets by providing a mechanism for the transfer of securities between the main traders and their clients free of payment (FOP) in the primary and secondary market	Tadawul	Improving the debt market environment to align with global markets	1) Debt as % of GDP
Developing regulations to encourage foreign companies list shares in the Saudi stock market	Diversify Saudi stock market investment options by encouraging foreign companies to list in the Saudi stock market and modify the securities offering rules continuing obligations and listing rules to reverse the approved regulatory concepts	CMA	Increasing the number of companies listed in the Saudi market, diversifying the investor base, and increasing the attractiveness of the market	1) Number of listings in capital market 2) Total market capitalization (shares) as % of GDP 3) Percentage of foreign investor ownership of the equity market cap (free float)
Enabling mutual recognition of investment products and asset management outside the Kingdom	Regulating financial services, allowing financial companies to offer certain financial products across borders, enabling them to do business in these countries without the need for further licenses from international regulators	CMA	Enhancing expertise and knowledge exchange in asset management and diversifying the investor base	1) Assets under Management, as % of GDP
Creating the regulatory framework for the issuance and trading of digital securities (STO)	Study the issuance and trading of digital securities in coordination with the relevant authorities in relation to their supervisory role on service providers and participants in the issuance and trading of digital securities in accordance with the financial market system and its executive regulations	CMA	Stimulating investment and diversification of investment products	1) Number of FinTech players

## Strategic Pillar : Ensure the formation of an advanced capital market (3.1.4)

Initiative name	Description	Leading entity	Expected impact	Program metrics impacted by initiative
Addressing the mechanism of calculating zakat on financial products	The means by which a transaction is processed and calculated (including the calculation of any withholding tax) has a great impact on the attractiveness of financial products to investors because it affects the proportion of profits they earn. The products of the debt instruments and sukuk market are on top of this, due to their relatively low risk and profit-taking nature	CMA	Stimulating the issuance and trading of securities	1) Debt as % of GDP 2) Percentage of foreign investor ownership of the equity market cap (free float)
Develop the repo market of debt Instruments	Develop the repo market of debt instruments to contribute to monetary stability by improving banks' ability to manage liquidity	Saudi Central Bank (SAMA)	Increase liquidity in debt markets	1) Debt as % of GDP
ESG and Sustainable Finance in the Kingdom of Saudi Arabia	To work on studying the enhancement of the Kingdom's rating from ESG Rating Agencies, and to issue sovereign sustainable debt instruments	NDMC	1) Access the growing global demand for sustainable investments 2) Increase transparency of the efforts made by the Kingdom of Saudi Arabia towards compliance with international standards of ESG. Consequently, the ease of ESG Rating Agencies to access and obtaining information/data to improve the evaluation of the Kingdom of Saudi Arabia	1) Debt as % of GDP

### Pillar 3: Encourage and Enable Financial Planning

Strategic Pillar : Promote and enable financial planning (retirement, savings, etc.) (6.1.1)

Initiative name	Description	Leading entity	Expected impact	Program metrics impacted by initiative
Establish National Savings Entity (gov't backed retail savings products)	Establishing a stand-alone government backed savings scheme provider to stimulate private savings by providing tailored products, bolstering competition for savings and allowing retail customers to save in government guaranteed products	MoF	1) increase saving products in the market. 2) increase in the total amount of household savings in the kingdom. 3) Simplify access to saving products through digital platforms	1) Assets under Management as % of GDP

#### B. Completed Initiatives

Initiative name	Description	Leading entity	Expected impact
Create a level playing field for finance companies	Address key challenges for finance companies (e.g., access to funding, taxation) to strengthen competition with banks	Saudi Central Bank (SAMA)	Increase share of SME financing
Accelerate launch of mortgage refinancing products	Implement mortgage refinancing by SRC (incl., product design)	SRC	Increase share of credit to private sector in GDP driven by mortgage growth
Design and launch mortgage guarantee products	Introduce mortgage guarantee products currently not available in the market to provide access to mortgage financing, esp., for mid- to low-income segments	REDF	Increase share of credit to private sector in GDP driven by mortgage growth
Improve mortgage registration and enforcement practices	Strengthen mortgage registration and enforcement practices to drive growth of mortgage portfolio by further protecting rights of the lenders	Saudi Central Bank (SAMA)	Increase share of credit to private sector in GDP driven by mortgage growth
Establish infrastructure for micro-finance and micro-insurance	Develop regulatory and legal frameworks for micro-finance and micro-insurance	Saudi Central Bank (SAMA)	Increase contribution of micro companies and financing to low income segments

Initiative name	Description	Leading entity	Expected impact
Build a national online factoring platform	Developing a factoring platform on top of the newly developed ESAL e-invoicing platform	Saudi Central Bank (SAMA)	Growth of SME sector in the economy
Facilitate insurance market M&A to increase scale and solvency	Enhance existing rules and regulations around M&A to facilitate consolidation in the insurance sector by clarifying / easing process of winding up companies, resulting in better capitalized insurers with capacity and capability to better serve market needs	Saudi Central Bank (SAMA)	Consolidation of insurance market resulting in lower cost-income, increased scale and stronger balance sheet capacity
Incentivize financial sector to finance SMEs	Nudge private sector (e.g., banks) to increase share of lending to SMEs by first improving existing ecosystem (e.g., restructuring of Kafalah program, enablement of Bayan and SIMAH to collect SME data) and then potentially considering incentives for SME lending	Saudi Central Bank (SAMA)	SME loans as % of bank loans to 11% by 2025
Review / introduce insurance requirements linked to mortgage law	Adjust existing insurance regulations to link with the mortgage law	Saudi Central Bank (SAMA)	Increase protection level of individuals acquiring property and lenders with property as collateral
Introduce derivatives	Establishing a market for offering and trading of derivatives contracts	CMA	Increase in institutional investors' share of value traded
Facilitate establishment and development of Endowment Funds	Building the infrastructure for Endowment funds	CMA	Increase Waqf funds offered and managed by authorized financial institutions
Strengthen cybersecurity	Improving the cybersecurity of capital markets through information exchange, monitoring and applying international best practices	CMA	1) Decrease number of cyber-attack incidents 2) Improve Global Cybersecurity Index score
Develop a fiscal risk management framework	This initiative focuses on developing a comprehensive framework for classifying, assessing and monitoring fiscal risks to ensure a clear alignment between the public sector and financial sector	MoF	This initiative will result in best practices and interactions in risk management across the financial sector

Initiative name	Description	Leading entity	Expected impact
Set up a unit to promote one narrative to int'l audience	The initiative focuses on establishing a coordinating entity to be the only source of truth for government entities wishing to reach international investors or vice versa. As international presence / participation in the Kingdom increases, there is a need to align between government entities to ensure that there is a single source of truth	MoF	This initiative will lead to a better coordination while communicating with int'l audience
Support growth and expansion of PE / VC	Broadening investment funds available to sophisticated investors	CMA	1) Increase size and participation of PE / VC funds 2) Increase startup funding / seed funding
Simplify access to banking savings products	Extend reach and distribution of financial services Develop the environment in which alternative service providers (e.g., agents, microfinance institutions) can emerge	Saudi Central Bank (SAMA)	1) Increase in savings deposited into banking savings products due to increased reach in remote areas 2) Increase in savings deposited into insurance savings products due to enhanced bancassurance rules
Introduce incentives for banks to attract long-term deposits	Consider incentivizing banks through adjustments in regulatory ratios to promote stable and longer-term deposits instead of current account deposits	Saudi Central Bank (SAMA)	Increase in savings deposited into banking savings products due to increased regulatory requirement needs for private sector
Distribute certain collective investment schemes through non-AP entities	Extend reach and increase penetration of collective investment schemes products by enabling APs to leverage existing distribution channels, including banks, to reach end consumers	CMA	Increase in savings deposited into collective investment schemes products due to ease of distribution constraints
Develop tailored product for low income segments	Increase savings level of low-income segments by designing, developing and launching savings products linked to social lending	SDB	1) Increase in savings deposited into savings A/C: +1B-2B SAR / year 2) Number of additional available types of savings products: +1 From available types

Initiative name	Description	Leading entity	Expected impact
Enhance QFI access and account opening process to access the market	Providing quick and direct access to the Saudi Capital Market for Qualified Foreign Investors	CMA	1) Reduce time and improve convenience for QFI account opening process 2) Increase Foreign Investor Ownership in equity market cap. 3) Increase Foreign Investor contribution to value traded
Enable a digital process for investment account opening	Establishing a digital KYC process and investment account opening	CMA	1) Increase number of investors in capital markets 2) Increase ease of access to Saudi market 3) Increase fair competition among APs especially the local ones
Assess feasibility of establishing an independent regulatory structure to oversee public companies' audits	Enhance the quality of audit of public companies, resulting in facilitating the flow and quality of information to investors to enhance transparency and reduce risk in securities transactions	CMA	1) Attract domestic and foreign investors 2) Increase in local and foreign investor confidence 3) Improve governance standards
Establish financial sector academy covering all sub-sectors	Institutionalize upskilling of existing capabilities / knowledge/ expertise across all sub-sectors on the basis of the existing Institute of Finance	CMA	Upskill knowledge, capabilities, expertise of talent force
Establish a clearing house based on CCP principles	Establishing a clearing house operating in line with CCP principles to ensure introduction of adequate risk management methods in line with best-in-class international standards	CMA	1) Increase post-trade revenue for Saudi Stock Exchange 2) Increase operational efficiency 3) Decrease operational risk 4) Facilitate introduction of dividends
Digitize KYC process and facilitate end-to-end digital processing	Revise existing regulations to allow digital customer on-boarding, KYC and end-to-end processing (e.g., e-signatures, fingerprints)	Saudi Central Bank (SAMA)	1) Simplify and increase access to banking products 2) Enhance efficiency of banking operations

## C. Detailing Game Changers

**Objective: Enable financial institutions to support private sector growth**

### Game-changer I: Open financial services to new types of players

#### 1. Description

This game-changer is owned by SAMA and focuses on enabling market entry to new types of players (such as FinTech companies) to enhance development of the innovation ecosystem in financial services, encourage entrepreneurship/job creation and boost competition in the private sector, to drive innovation and quality of service.

The game changer will consist of:

- Establishment of the Central Payments Unit within SAMA to regulate payments in the Kingdom of Saudi Arabia
- Issuance of new licenses to innovative non-banking players (such as payments and platforms) via the sandbox
- Issuance of regulatory rules for payment service providers
- A survey of players in the FinTech field in the Kingdom, after the entry of the Saudi entities, to identify the challenges they face and develop the FinTech sector
- Privatization of payment systems of the General Department of Payment Systems/ SADAD through the establishment of the Saudi Payments Company.
- Develop FinTech-focused funds/accelerators/incubators to enhance financing for FinTech companies

#### 2. Rationale

Opening financial services to non-banking players will have multiple benefits, among which are:

- Promoting the development of an innovative ecosystem in the financial sector
- Encouraging entrepreneurship / job creation in the financial sector
- Improving service quality for consumers through increased competition
- Strengthening lending capabilities of specific sectors.

#### 3. Estimated impact

This game-changer will have the following impact on the economy:

- Increasing the number of FinTech Players
  - Almost 30 FinTech players in 2025

## Game-changer II: Drive toward a cashless society

### 1. Description

This game-changer is owned by SAMA and focuses on enhancing the use of digital payment solutions by creating and developing innovative payment solutions to facilitate financial transactions of individuals and institutions from various sectors to reduce cash in circulation and the cost of cash on the economy and ensure greater transparency for the government to monitor cash flows.

The game changer will consist of:

- Mada Online service
- e-Invoicing platform
- Mada Pay smartphone app
- Instant payments system
- Study the activation of e-payment services in unserved sectors and regions in the Kingdom by providing e-payment methods

### 2. Rationale

- The reduction in cash in circulation will have multiple impacts on the economy, including:
  - Reduced cost of cash on the economy
  - Ensure greater transparency for governments to monitor cash flows for taxation purposes and combating commercial concealment
  - Make available better information to support SMEs financing and facilitate performance tracking

### 3. Estimated impact

This game-changer will have the following impact on the economy:

- Increasing the share of non-cash transactions (as % of total transactions):
  - 70% in 2025

### **Game-changer III: Strengthen compulsory motor insurance enforcement**

#### **1. Description**

This game-changer is owned by SAMA and focuses on enforcing compulsory motor insurance to reduce fraudulent practices, and continue to develop the existing insurance sector (for example, increasing total written premiums, increasing volume, and reducing the cost-to-income ratio).

#### **2. Rationale**

Enforcing compulsory insurance will yield multiple benefits to the private sector, including:

- Strengthening the private insurance sector through additional written premiums
- Protecting the wealth of individuals and preserving the rights of those affected by traffic accidents
- Increasing the scale of insurance companies and improving the cost-to-income ratio

#### **3. Estimated impact**

This game-changer will have the following impact on the economy:

- Increased depth of the insurance market (GWP / non-oil GDP):
  - 2.4% in 2025
- Coverage ratio of motor insurance schemes
  - 77% in 2025

### **Game-changer IV: Strengthen compulsory health insurance enforcement**

#### **1. Description**

This game-changer is owned by SAMA and focuses on enforcing compulsory health insurance to reduce fraudulent practices, and continue to develop the existing insurance sector (for example, increasing total written premiums, increasing volume, and reducing the cost-to-income ratio).

## 2. Rationale

Enforcing compulsory insurance will yield multiple benefits to the private sector, including:

- Strengthening the private insurance sector through additional written premiums
- Protecting the wealth of individuals
- Increasing the scale of insurance companies and improving the cost-to-income ratio

## 3. Estimated impact

This game-changer will have the following impact on the economy:

- Increased depth of the insurance market (GWP / non-oil GDP):
  - 2.4% in 2025
- Coverage ratio of health insurance schemes
  - 45% in 2025

**Objective: Ensure the formation of an advanced capital market**

## Game-changer V: Inclusion of commercial governmental assets and business in the financial market

### 1. Description

Identify commercial governmental assets and businesses and assess their ability to be listed into the financial markets, by providing the required support through the committee.

### 2. Rationale

The listing of state-owned commercial assets & entities will generate multiple benefits for the Saudi financial markets, including the following:

1. A unique opportunity to increase the depth and capacity of the Saudi financial market
2. Attracting foreign investors and institutional investments with exit opportunities through liquid markets
3. Improving governance, performance, and efficiency to target listing companies

### 3. Estimated impact

Based on the initial plans of the Program to Achieve a Vision in the Listing Side, this active initiative will have the following effects on the Saudi financial market:

- Increase the market value of the stock market as a proportion of current GDP to: 80.8% in 2025
- Increase the current participation of institutional investors as a proportion of the total volume of consolidation to: 44% in 2025
- Increase the current ownership of foreign investors from the total market value of free shares to: 17.5% in 2025

## Game-changer VI: Deepen debt capital markets

### 1. Description

This game-changer is owned by CMA and focuses on encouraging the growth of the debt capital markets to further diversify public/private sector financing options and create a new asset class for investors.

The game changer will consist of:

- Issuing rules governing special purpose facilities
- Amendment of debt instrument market regulations for foreign investors
- Reducing the borrowers' cap ratio as one of the banks' eligible capital base
- Amending securities offering rules and continuing obligations
- Improve on your subtraction model
- Study the mechanism of presenting the instruments of debt offered by a special proposal
- Easing the requirements for the qualification of foreign investors to invest directly in the debt instruments market
- Awareness materials for the mechanism of applying and calculating zakat for religious instruments

### 2. Rationale

Increasing the depth of the debt instrument market will generate multiple benefits for the Saudi capital market, including:

- Diversification of financing options for both the private and public sectors
- Creating a new asset class for investors
- Diversify lending and improve financial stability by lowering the cap on a single borrower
- Providing a reliable source of funding with limited disclosure requirements for family groups

### 3. Estimated impact

Based on initial plans, this effective initiative will have the following impact on the financial market for debt instruments in Saudi Arabia:

- Size of the debt instruments market as a proportion of GDP to 24.1% by 2025

## Game-changer VII: Motivating the private sector to be listed on the Saudi stock market

### 1. Description

This initiative aims to encourage the private sector to list on the Saudi financial market, increasing the GDP contribution the market makes to the Saudi economy. This goal will be achieved by overcoming the following challenges:

- Correcting misconceptions about inclusion by raising awareness of its importance to companies.
- Increase the number of investment products to provide more diversified options for investment.
- Develop the market in addition to improving it at the regulatory and operational level.
- Provide incentives for companies and overcome the barriers they face in the way of inclusion.

The game changer will consist of:

- Listing rules (modified)
- National Forum for Dialogue between Listed and Unlisted Companies (Annual Trading Forum)
- Updated list of investment funds
- Allowing e-funds to be listed on the parallel market – Nomu
- Regulatory concepts for direct listing in the main market
- Allow the inclusion of ETFs on the parallel market - Nomu
- Allow the inclusion of ETFs in the main market
- Launch incentive packages
- Regulation to float and list shares of non-Saudi companies (double listing)
- Awareness workshops to raise awareness of the importance of inclusion

### 2. Rationale

- The initiative targets local and foreign investors at the corporate or individual level
- This initiative contributes mainly to achieving level 3 strategic objectives (developing an advanced financial market) by overcoming the challenges mentioned above.

### 3. Estimated impact

This pivotal initiative is expected to have the following effect (Excluding ARAMCO):

- Increase the number of listings on the Saudi stock market:
  - 134 listing by 2025
- Raise the market capitalization (equities) ratio to GDP:
  - 80.8% by 2025

**Objective: Promote and enable financial planning (retirement, savings, etc.)**

## **Game-changer VIII: Establish National Savings Entity (government backed retail savings products)**

### **1. Description**

This initiative contributes mainly to achieving level 3 strategic objectives, developing an advanced financial market by overcoming the challenges mentioned above.

This game-changer is owned by Ministry of Finance and will focus on establishing a standalone national savings entity that provides government backed savings products, stimulates private savings by providing tailored products, bolsters competition for savings, allows individual customers to save in government products and provides all necessary requirements to ensure the optimal launch of the entity. The game-changer will consist of:

- Assessment phase: result and recommendations of the first phase - approved by FSDP committee - including but not limited to solutions related to product provision, the nature of the products, funding and budget required to launch the entity, the appetite of individuals for the products, market and impact studies.
- Set up the entity.
- Full launch of the entity

### **2. Rationale**


Establishing the National Savings Entity will result in multiple financial planning benefits in Saudi Arabia, among which are:

- Creates a successful model in stimulating supply and creating demand
- Generates funding for the financial sector
- Shares responsibility with banks in offering savings products
- Distributes government backed savings products to individuals both via banks and through channels

### **3. Estimated impact**

The game-changer is estimated to have the following impact on individual savings in Saudi Arabia:

- Increase saving products in the market
- Increase in the total amount of household savings in the kingdom
- Simplify access to savings products through digital platforms

An aerial photograph of a city, likely Jeddah, Saudi Arabia, featuring a prominent mosque with a tall minaret. The image is overlaid with a dark, semi-transparent graphic consisting of a grid of white lines forming a series of overlapping, fan-like shapes. The text 'Chapter 6' is positioned on the left side of the image, partially overlapping the graphic.

# Chapter 6

Chapter 6

## **Other FSDP Concentrations**

A Islamic Finance Strategy

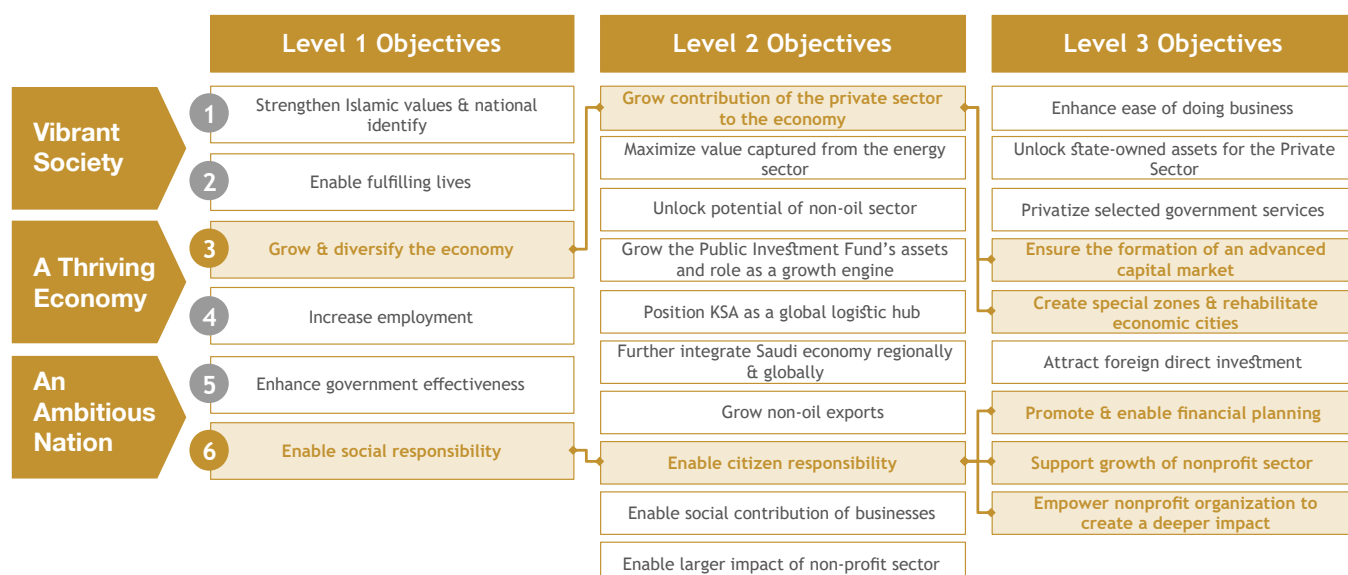
## Islamic Finance Strategy Description

The Islamic Finance strategy aims to uplift the Islamic finance industry in the Kingdom of Saudi Arabia and position it as a global benchmark through “Enhancing KSA’s international position as the leader in the Islamic World”, “Enhancing and developing the IF sector governance”, and “Developing and enhancing the capabilities to support the growth of the sector”.

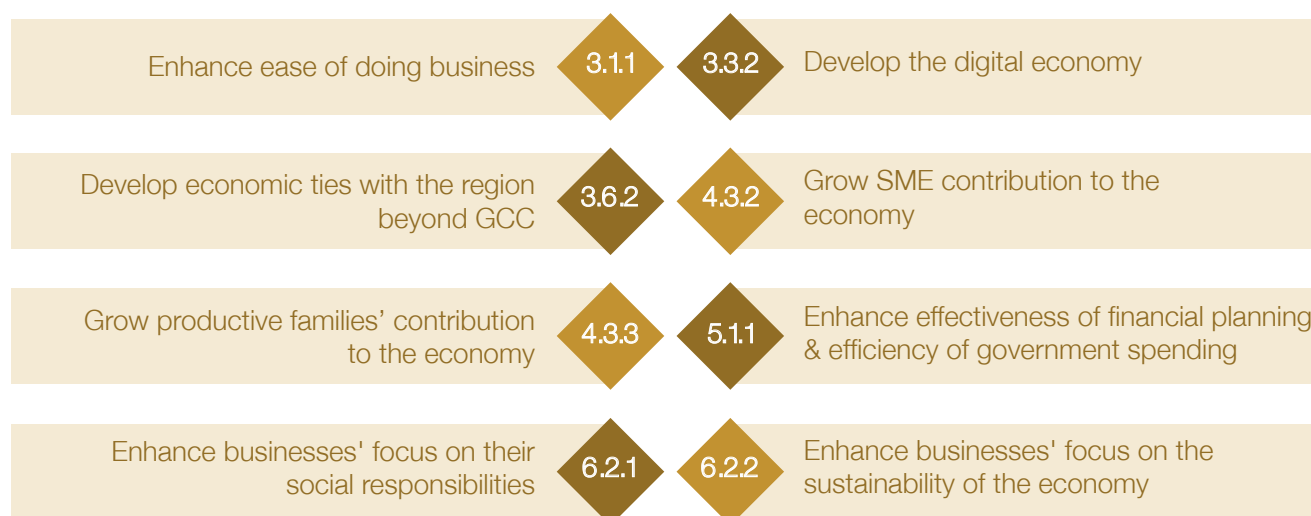
### Saudi Arabia Contribution to Islamic Finance

Historically, Saudi scholars and Saudi institutions have contributed significantly to the shape and growth of the Islamic finance industry. Many institutions that provided the shari’ah foundation for Islamic finance were established in the Kingdom and are still operating to date. The Islamic Development Bank, for example, aims to promote global development that is underpinned by shari’ah compliant long term sustainable and ethical financing structures, as global leaders in Islamic Finance. Many countries in the Islamic world utilized the bank to build the necessary infrastructure for fostering Islamic finance.

## Islamic Finance Strategy and Relation to Vision 2030 Direct Level 3 Objectives



### Indirect Level 3 Objectives



### 2025 commitments

To help accomplish the aspirations and commitments of the strategy, a set of commitments have been identified to work towards achieving these aspirations by the year 2025.

First, to reach the desired aspiration in terms of value of Islamic assets, the strategy commits to increasing the percentage of total Islamic finance assets locally to total Islamic finance assets globally to approximately 22.5% by 2025 from 21% in 2018. In addition, the strategy will aim to increasing the percentage of total Islamic finance assets locally to GDP to approximately 79.3% by 2025 from 21.08% recorded in 2018.

Second, to ensure proper enhancement to the Islamic finance shari'ah governance framework, the strategy commits to increasing by 2025 the number of distinct shari'ah scholars to total Islamic finance institutions to approximately 1.6 distinct shari'ah scholars per institution from 0.50 recorded in 2018 and increasing the percentage of Saudi scholars to seats on selected international organizations and institutions to approximately 23% from 16.07% recorded in 2018.

Finally, to support the strategy's aspiration on further enhancing specialized Islamic finance research, development, and educational centers, the strategy commits by 2025 to increasing the number of publications related to Islamic finance to more than 60 publications per year from 19 publications recorded in 2018.

## Islamic finance Strategy Metrics and Targets

The Islamic Finance Strategy has identified five KPIs for monitoring the impact of the Islamic Finance Strategy and the level of its progress.

KPI	2018	2020	2021	2022	2023	2024	2025
Percentage of total Islamic Finance assets locally to total Islamic Finance assets globally	21.08%	21.48%	21.68%	21.89%	22.09%	22.30%	22.51%
Percentage of total Islamic Finance assets locally to GDP	75.66%	75.9%	76.23%	76.85%	77.64%	78.14%	79.27%
Number of distinct shari'ah scholars to total Islamic Finance institutions	0.50	0.71	0.85	1	1.2	1.4	1.6
Percentage of Saudi scholars to seats on international bodies and FI's	16.07%	17.83%	18.78%	19.79%	20.84%	21.96%	23.13%
Number of annual publications	19	27	32	38	45	54	64

## Current Challenges

### Shari'ah Committees

The Islamic Finance industry lacks a clear shari'ah compliance governance structure that should act as the backbone of the sector. As a result, shari'ah committees across all financial institution within the kingdom operate in a different manner. Having a Sharia governance framework will contribute to enhancing confidence and greater independence of Sharia decisions in line with the relevant international best practices.

### Internal Shari'ah Auditing

Internal Sharia audit contributes to enhancing confidence in the Islamic products offered by the financial institutions. It will also enhance the protection of clients who are interested in Islamic products.

### Shari'ah Compliance

The Sharia Compliance Department contributes to enhancing confidence in Islamic financial products. It also contributes to improving the legal compliance with the relevant decisions of the Sharia committee within the financial institution.

## Central Shari'ah Board

International experiences differ regarding the organization and functions of the central Sharia bodies concerned with the financial sector. The practices differ according to the different regulations and composition of the financial sector in each country. There is currently no presence for a central sharia body for the financial sector in the Kingdom.

Resolving the above issues with the industry governance requires a comprehensive governance model that will ultimately have a positive impact on the following:

- Decreasing the risks of the financial system
- Improve transparency and protect the investor
- Remove the appearance of conflict of interest
- Enhance the efficiency of the sector
- Increase financial inclusion

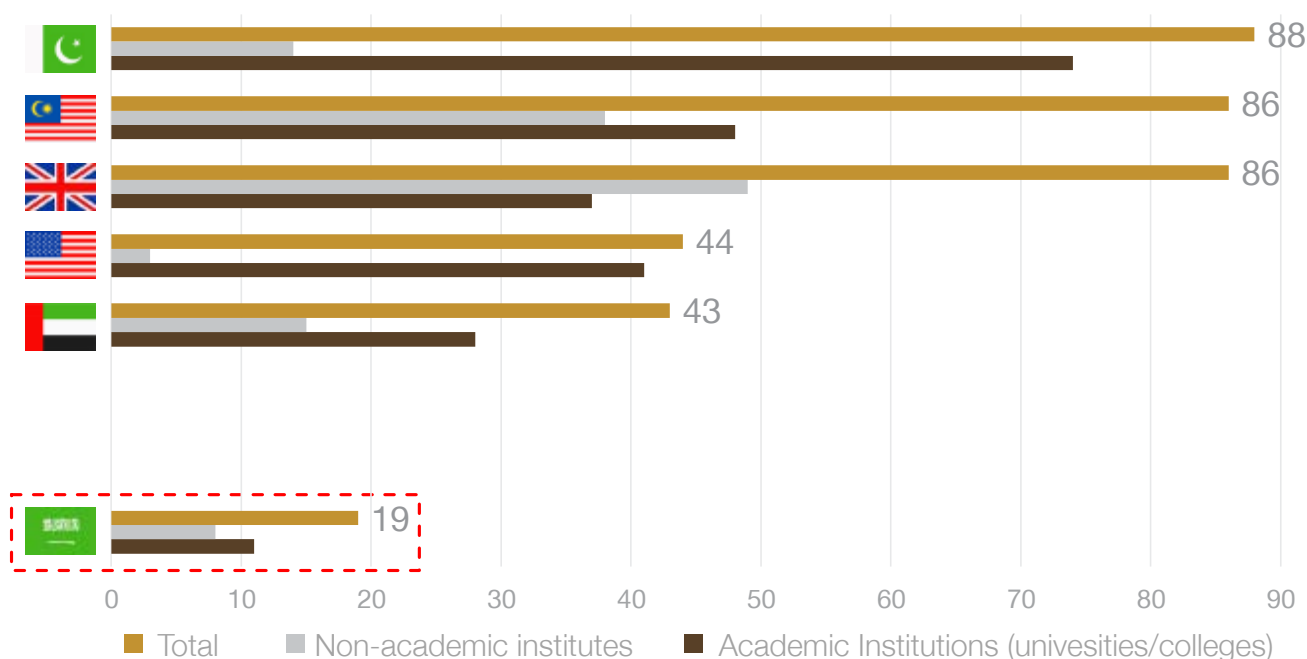
## International Positioning

The strategy aims to strengthen the global position of the Kingdom of Saudi Arabia in the Islamic finance sector, as it has the largest share of the Islamic finance sector in the world. The strategy will also contribute to the necessary marketing and incentives to spread the tremendous capabilities that the Kingdom is undertaking in this sector. Whereas the Kingdom possesses adequate financial and intellectual capital to promote this sector locally and market it internationally, and this will allow attracting more assets and influence in the Islamic finance sector.

## Education, Training, and R&D

The strategy seeks to raise the quality and quantity of educational programs, resulting in the presence of qualified capabilities for the requirements of the sector and the market. Therefore, the strategy will contribute to the promotion and innovation of specialized training programs for employees and institutions locally. Ensuring that the sector employees are aware of all innovations, developments, and new products in the sector.

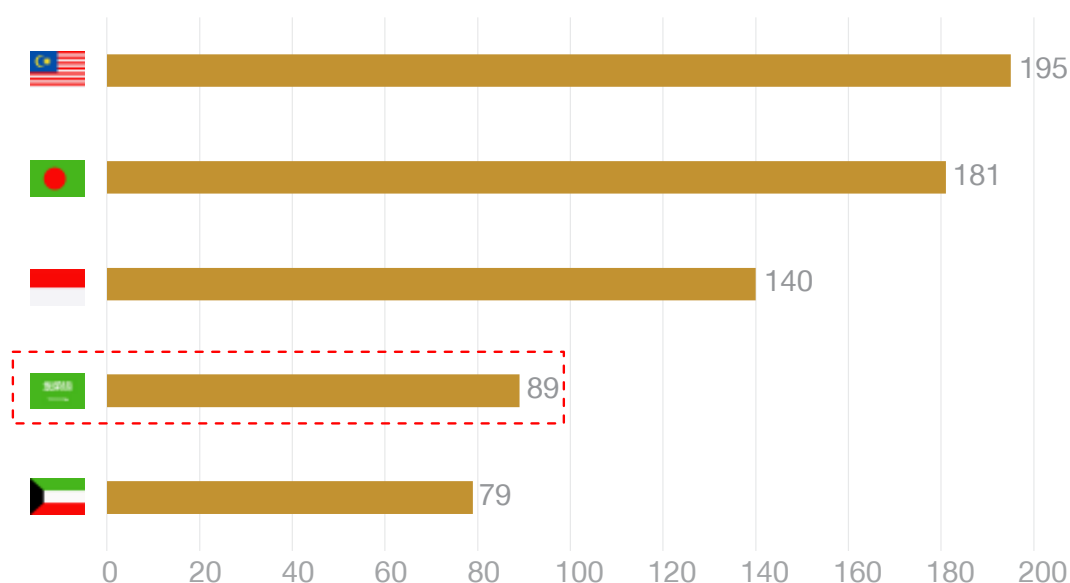
## Number of Academic and Non-Academic Islamic Finance Institutions (2018)



The number of certificates offered in the field of Islamic finance worldwide is 202, 90% of which focus on Islamic banking services. A gap still exists in the areas of Islamic assets, Islamic insurance, alternative Islamic investments, and insurance practices.

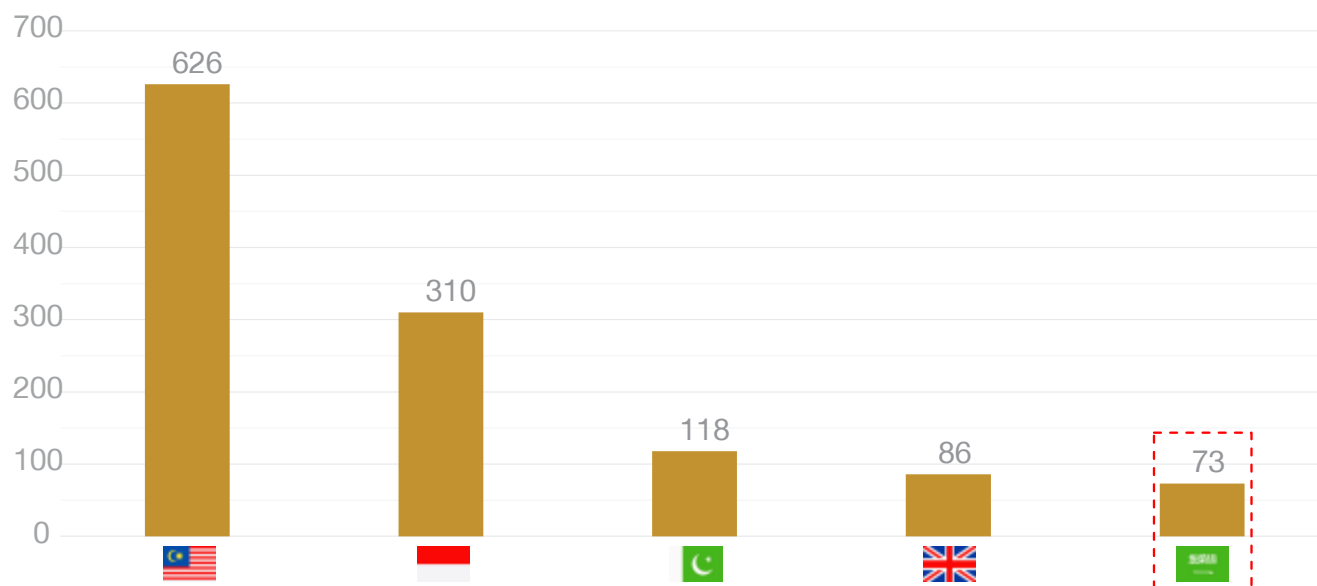
There are also currently a small number of scholars who occupy the majority of seats on the Shari'ah committees in financial institutions.

## Number of Shari'ah Scholars (as of 2017)



Many universities provide programs in Islamic finance, yet there is still a need to promote studies and research on Islamic financial products and increase its innovation.

Number of Islamic Finance Research Papers (2015-2017)



### FSDP Islamic Finance Strategy

This section consists of strategic goals, sub-goals, and initiatives

#### Strategic Goals

For the kingdom to become the Islamic Finance capital of the world by 2030, we have identified three strategic goals:



## Sub Goals

Seven sub goals have been identified under the strategic goals of this strategy to position the Islamic Finance sector in the Kingdom as a global sector leader.

## Governance

To enhance and develop the Islamic finance industry governance, the strategy has 3 sub goals:

- i. Enhancing shari'ah governance structure and increasing transparency.
- ii. Reducing legal risks and cost of doing business
- iii. Increasing efficiency and transparency

## International Positioning

To enhance KSA's international position as the leader in Islamic finance, the strategy has 2 sub goals:

- i. Driving recognition as a sector leader
- ii. Enhancing sector capacity and superiority

## Education, R&D, and Innovation

To develop and enhance the educational and research institutes to support the growth of the sector, the strategy has 2 sub goals:

- i. Enhancing workforce capabilities
- ii. Increasing diversity of products/services through innovation

## Strategic Considerations

The Program took a number of decisions regarding the strategic considerations present within the framework of the program based on the following standard analyzes and studies:

Topic	Description	Decision taken
Financial stability	The strategy has prudently considered financial stability when trying to achieve the desired growth and depth in the Islamic finance industry	When drafting the strategy, financial stability was one of the main considerations that was taken. The objective of this consideration is to ensure that deepening and uplifting the Islamic finance industry does not affect in any way the financial stability of the Kingdom. Hence the strategy has taken a phased approach in implementing some of the initiatives, specifically in one of the strategic objectives “Enhance and develop the Islamic finance industry governance”. The strategy also took into consideration further solidifying the financial sector in the kingdom through participating in achieving the diversification objective of the Kingdom’s Vision 2030. The strategy also supports the independence of the regulatory bodies in conducting their supervisory role in the sector.
Shari’ah perspective	The strategy has taken into account various shari’ah perspectives to identify the right focus to further enhance the sector	While developing the strategy, various shari’ah perspectives were taken into consideration. For example, the strategy was designed to ensure full independence of shari’ah scholars that are experts in the field of Islamic finance. The strategy also introduced multiple initiatives to enhance the governance structure that aims to ensure proper shari’ah decisions are made across the sector and across the various levels (i.e., board, management, employee, and customers).
Legal implications	The strategy considered carefully the implications and timing of any changes to the legal setup within the Kingdom	The strategy carefully studied the legal implications of all the objectives, sub objectives, and the initiatives. Hence the strategy adopted the phasing approach on all initiatives that might have any implication on the legal system in the Kingdom.

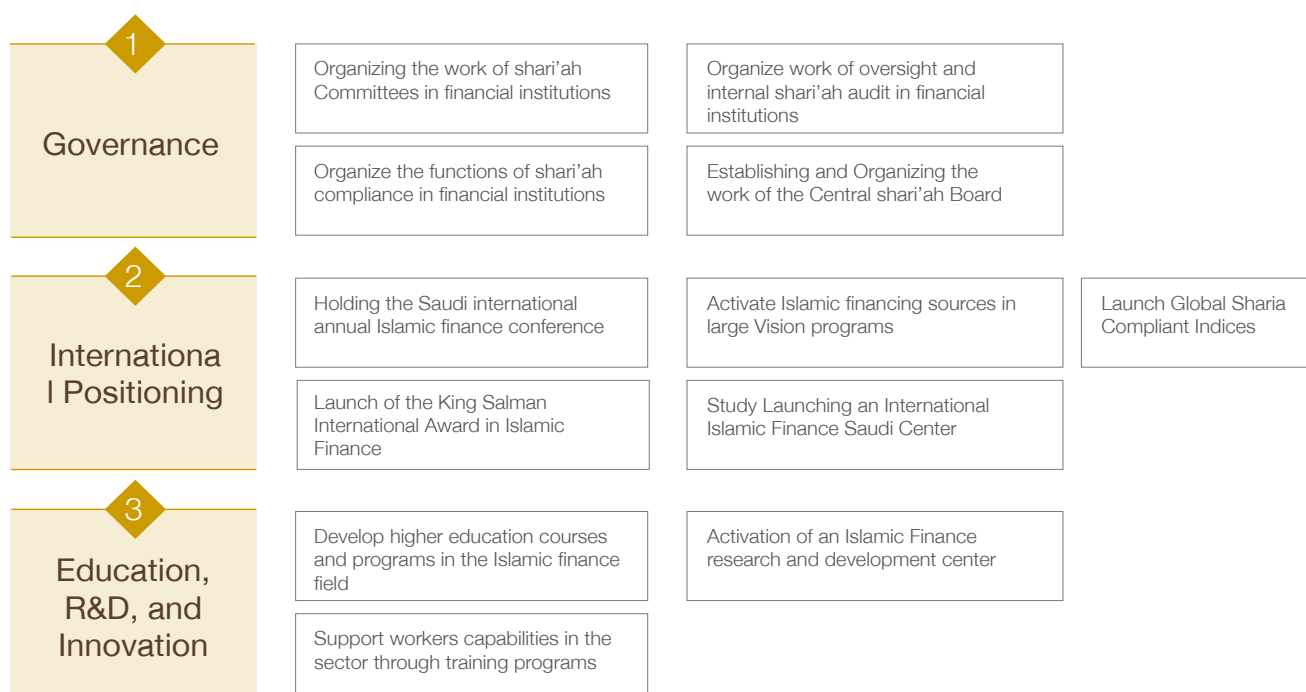
## Interdependencies with other Vision Realization Programs

Interdependencies	VRP	Considerations
Housing initiatives directly interact with the Islamic finance industry, as all mortgages in the kingdom are shari'ah compliant	Housing Program	The strategy took into account the interdependency in the mortgage market with the Islamic finance industry and ensured that all the initiatives are in line with the objectives of the housing program and do not hinder the growth they aspire to reach. The strategy also aims to enhance the mortgages that are shari'ah compliant through the governance strategic objective
One of the Hajj and Omrah Program objectives is to provide the best and most suitable service to the Muslims performing Hajj and Omrah	Doyof Al Rahman Program	This strategy contains initiatives that do not hinder or obstruct the objectives of the Hajj and Omrah Program. The strategy is in line with what the Hajj and Omrah Program aspire to reach, specifically in providing the best services to the visitors of the two holy mosques.
Several programs aim to enhance and develop the business environment in the Kingdom, which is impacted directly by the Islamic finance industry	Privatization Program, Housing Program, NIDL, and the Public Investment Fund Program	The strategy aims to improve access to shari'ah compliant funding sources for the private sector in the Kingdom and globally. By which, the strategy will diversify the sources of funding available in the financial sector, which will benefit all relevant programs. The strategy ensured that all the initiatives do not affect in any way the advancement of other initiatives in other programs.
The increased revenue from fees and taxes resulting from growing the Islamic finance asset	Fiscal Balance Program	One of the initiatives that are housed under the strategy focuses on attracting foreign investors and customers to invest or use the local Islamic finance industry. This in result will increase the fees and taxes that the government has put in place. The strategy ensured that all activities and initiatives under the strategy do not contradict the objectives of the fiscal balance program, it ensures alignment.

Interdependencies	VRP	Considerations
The Islamic finance industry is affected and impacts capital markets, hence the interdependency with the capital market development objectives of many programs	Privatization Program, Housing Program, NIDL, and the Public Investment Fund Program	With the strategy playing a role in diversifying the economy and diversifying the sources of funding, development of the capital market is affected. The strategy took into consideration all the initiatives and objectives that are related to the advancement of the capital market and ensured alignment as well as ensured that the initiatives do not hinder any of the existing initiatives

## Initiatives Portfolio

Based on the strategy's aspirations, commitments, goals, and sub goals, the strategy has identified 11 initiatives that aim to achieve the Program's aspirations and commitments. All initiatives have been linked to the goals and sub goals that the strategy has identified.



The initiatives were designed to bridge the gap in the sector and to ultimately achieve the goals of the strategy and uplift the Islamic finance industry. The initiatives took into consideration current gaps in the sector, international best practices, and the views of subject matter experts in the field of Islamic finance.

### Governance Strategic Goal Initiatives: Enhance and develop the Islamic finance industry governance

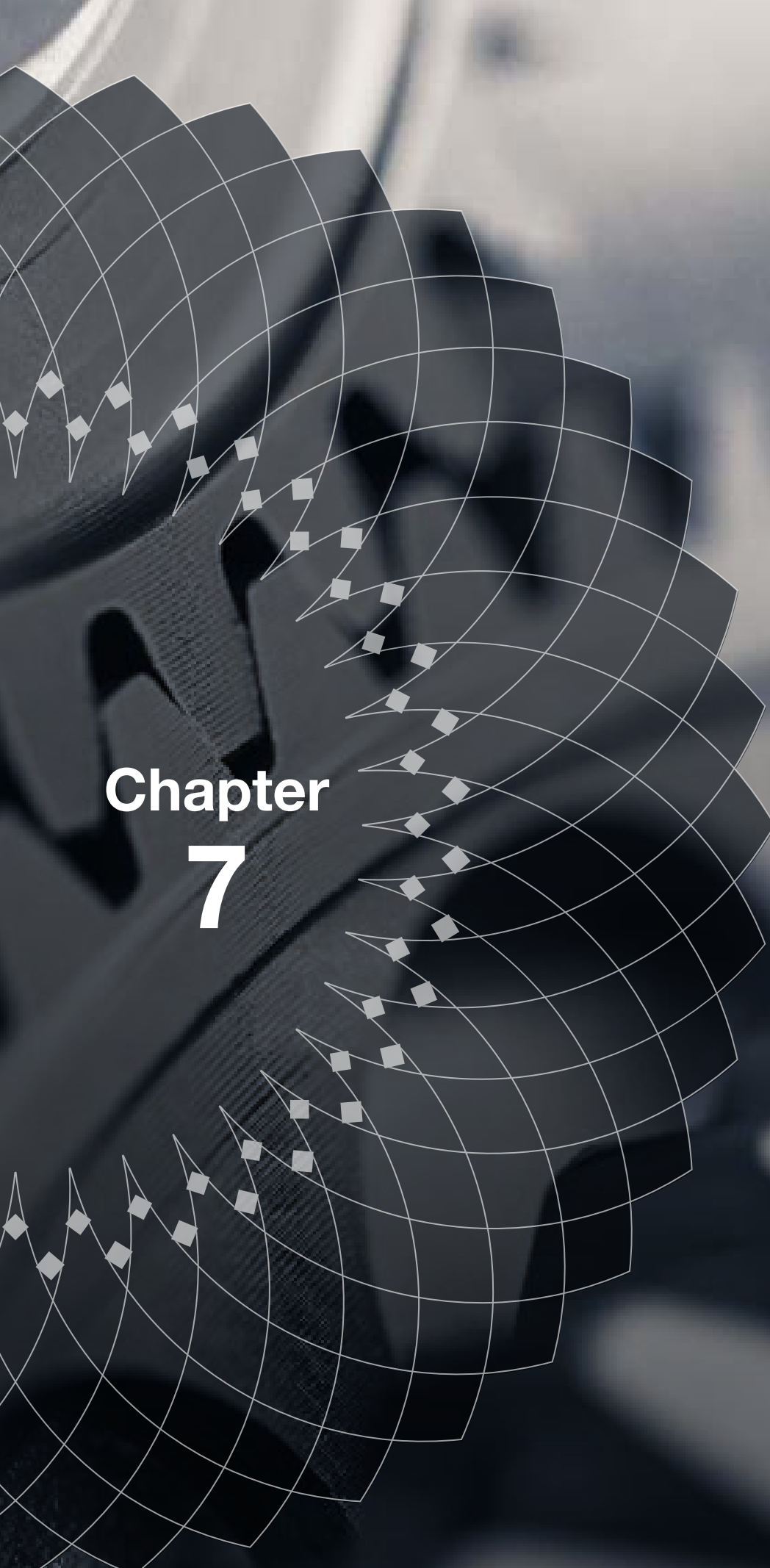
Initiative	Description	Owner	Expected Impact
Organizing the work of shari'ah Committees in financial institutions	Issue clear regulations to govern shari'ah committees in financial institutions and its members. For example, and not limited to, dictate on minimum number of members, membership qualifications, responsibilities and authorizations of the shari'ah committees	SAMA / CMA	Positive effect on enhancing the financial stability and financial inclusion as a result of increased trust within the Islamic finance industry as well as deepening the value of the Islamic finance industry locally.
Organize the functions of shari'ah compliance in financial institutions	Organize the functions of shari'ah compliance in financial institutions, for example studying the products and contracts before implementation with clients. In addition, the function will be responsible for conveying the resolutions made by the shari'ah committee to the management of financial institutions, as well as, its role in the development of contracts and products	SAMA / CMA	Increase of confidence in the Islamic finance industry, specifically to financial institutions, as shari'ah compliant products and services issues and mistrust will reduce due to the availability of a compliance function.
Organize the work of oversight and internal shari'ah audit in financial institutions	Organize the work of overseeing and internal shari'ah auditing in financial institutions. For example, and not limited to, oversight on the application of shari'ah committee resolutions relating to the financial institutions' contracts and products, and prepare regular reports presented to the shari'ah committee.	SAMA / CMA	Increase of confidence in the Islamic finance industry, specifically to financial institutions, as shari'ah compliant products and services issues and mistrust will reduce due to the availability of an internal audit function.
Establishing and Organizing the work of the Central shari'ah Board	Developing the framework of establishing the shari'ah Board, with the focus on financial institutions overseen by CMA. The board's goal is to play a supporting role to oversight in achieving shari'ah governance and customize the global standards to the Saudi environment. Following the launch of the board at CMA, an assessment is to be done on of the need to replicate it for institutions overseen by SAMA.	CMA	Increase trust in all shari'ah compliance products offered by financial institutions as well as decrease the possibility of manipulation in shari'ah compliant products

### International Positioning Strategic Goal Initiatives: Enhance KSA's international position as the leader in Islamic finance

Initiative	Description	Owner	Expected Impact
Holding the Saudi international annual Islamic finance conference	Holding a conference that focuses solely on showcasing and promoting the Islamic finance industry of the kingdom as well as showcasing industry trends. The conference should also attract major international players in the Islamic finance industry to participate in the conference.	Ministry of Finance	The conference is expected to position the Kingdom as the leader in the Islamic finance industry. In addition, hosting such a conference will act as a tool to discuss issues and products that would ultimately benefit the local sector. Holding such a conference will also act as a market place where global financial institutions could use it to finalize financial transactions and deals that ultimately benefit the sector, including the local sector.
Launch of the International Award in Islamic Finance	The launch of a major annual award, the most important in the industry worldwide. The winners are honored annually at a grand celebration of the annual Saudi International Islamic Finance Conference.	Ministry of Finance	The award will contribute to: 1- Appreciation of the efforts made in developing Islamic finance sector. 2- drive further investments in research and development in the sector, which will positively affect the size and depth of the sector, especially in the Kingdom.
Activate Islamic financing sources in large Vision programs	This initiative aims to encourage government entities that plan to acquire financing, either debt and/or hybrid, to prioritize the use of Islamic financing and shari'ah compliant sources of funding.	Ministry of Finance	Decreasing cost of funding for government projects, deepening the Islamic finance assets in Saudi Arabia including debt and equity capital markets, strengthening the positioning of Saudi Arabia in the global Islamic finance industry.
Launch Global Sharia Compliant Indices	Launch shari'ah compliant indices with the aim of acting as a benchmark provider for any investor looking into shari'ah compliant investment in the kingdom.	Tadawul	1-Makes the Kingdom a market leader in Islamic Finance. 2-Deepening the Islamic finance sector in the Kingdom by reducing costs of research and investment. 3- Create specialized jobs to operate these indices.

### Education, R&D, and Innovation Strategic Goal Initiatives: Develop and enhance the educational and research institutes to support the growth of the sector

Initiative	Description	Owner	Expected Impact
Develop higher education courses and programs in the Islamic finance field	Reassess the higher education curriculum and redesign to keep up with the advances in the theory and application/practices of Islamic finance and in the financial sector products and services.	Ministry of Education	It will impact the quality of education positively, which will result in a workforce that is well positioned to add value to the sector and eventually increase its contribution to increase the growth of Saudi economy.
Support workers capabilities in the sector through training programs	Design and launch professional and/or specialized training programs for in all Islamic finance industries, focusing on technical and practical aspects. And it will be compulsory for financial institutions to provide minimum hours of training for the audit, compliance, external audit employees and any other employee that have direct interaction with products or services related to Islamic Finance.	Ministry of Education	1-The initiative will directly impact on the capabilities of the work force in the Islamic finance industry 2-It will impact the size and depth of the sector in the Kingdom and its contribution to growth of Saudi economy. 3-It will also give participants in the sector other than the workforce, such as scholars, practitioners, and leaders more skills and capabilities to be better informed in making decisions and ensuring a better future for the Islamic finance industry.
Activation of an Islamic Finance research and development center	This initiative aims to activate an Islamic Finance research and development center, focusing on applied research and seeking to develop solutions and products related to the Kingdom's Islamic Finance industry. The center is to focus on the applied research and development, as there are many entities focusing currently on academic and basic theoretical research.	Ministry of Finance	Such a research center would impact the overall Islamic finance industry by acting as a research and development arm that specializes in introducing to the sector new and innovative shari'ah compliant products and services that all local players in the sector could benefit from. Providing new products and services that ultimately increase the attractiveness and credibility to the local sector. Also, such a center strengthens the position of the Kingdom as a global leader in Islamic finance.

A stylized graphic of a fan or gear with a grid pattern and a line graph overlay. The graphic is composed of overlapping, curved segments that form a fan-like shape. A white grid is overlaid on the dark background of the fan. A white line graph with diamond-shaped markers is also overlaid, showing a fluctuating trend. The background of the entire page is a blurred image of a person's face.

# Chapter 7

## Chapter 7

### **Enablers**

A Governance Model

B Risk Mitigation and Required Actions

## A. Governance Model

### A. Proposed Implementation Management Model

The proposed implementation management model for the Financial Sector Development Program will include the following elements:

The Program Committee, comprising the following members:

- Excellency Minister of Finance – Chairman of the Committee.
- Excellency Minister of Investment – Member.
- Excellency Governor of Saudi Central Bank – Member.
- Excellency Chairman of the Capital Market Authority – Member.
- Chairman of Small and Medium Enterprises General Authority - Member

**Program Management Office, which includes:**

- Program Manager
- FSDP Staff
- Owners of the FSDP initiatives
- Other stakeholders will be invited, each according to its relevance to the issues discussed, and this includes representatives of the private sector

### B. Proposed Roles and Responsibilities

The proposed roles and responsibilities of the components of the Management Model outlined above will include:

- Financial Sector Development Program Committee:
  - Meet on a monthly basis.
  - Monitor and report on the implementation of program initiatives.
  - Monitor and report on program indicators.
  - Resolve implementation issues escalated by relevant entities.
- Program Management Office (PMO):
  - Follow-up on implementation on a regular basis
  - Continuously communicate with relevant entities
  - Follow-up on the status and report on program initiatives
  - Follow up and report on program indicators
  - Resolve implementation issues escalated by relevant entities
  - Provide necessary delivery support, if necessary
  - Escalate issues, if necessary
- Owners of initiatives:
  - Lead and implement individual initiatives.
  - Review progress.
  - Daily manage the implementation teams.
  - Report progress on implementation to the PMO.
  - Identify issues and escalate for resolution, if necessary.

## B. Risk Mitigation and Required Actions

The implementation and development of this program may be hindered by several internal or external risks. A detailed list of the most critical risks has been identified; mitigation plans have been developed to address these risks to continue with the timely implementation of the program.

Key initiative	Risk name and description	Type of risk	Risk mitigation measure	Entity responsible for the measures	Timeframe to implement these measures
Open Financial Services to new types of players	Limited availability of equity / seed funding for Fintech start-ups	Program-specific	Develop Fintech focused funds/ accelerators/ incubators to enhance funding for Fintech companies	Fund of Funds	Upon approval of Game-Changer “Open FS to new types of players”
	Lack of qualified professionals in the Fintech ecosystem	Program-specific	Financial Sector Academy to develop dedicated development/ educational/ training programs for Fintech companies	Financial Sector Academy	Upon approval of initiative “Establish Financial Sector Academy across all sub-sectors”
	Customer protection risk	Program-specific	Develop consumer protection framework as part of new Regulations	SAMA	Upon approval of Game-Changer “Open FS to new types of players”
Incentivize financial sector to finance SMEs	Low demand for SME financing	General	Government allocating more contracts directly to SMEs and implementation of wider initiatives by SME authority	SAMA	Mitigation action can be started as soon as possible
Drive toward cashless society	Delays in improvement of financial inclusion may delay achieving cashless society targets	Program-specific	Introduce additional initiatives in a phased manner, after financial inclusion index has reached a certain value (e.g., 85%)	SAMA	Upon approval of Game-Changer “Incentivize fin. Sector to finance SMEs”

Key initiative	Risk name and description	Type of risk	Risk mitigation measure	Entity responsible for the measures	Timeframe to implement these measures
Enforce mandatory insurance	Delays in the enforcement of new procedures that could hinder growth of the sector and pose moral risk toward law-abiding citizens	Program-specific	Ensure coordination and commitment of involved entities (e.g., Ministry of Interior)	SAMA	Upon approval of Game-Changer “Incentivize fin. Sector to finance SMEs”
Deepen debt capital markets	Lack of investor appetite to invest in debt instruments	General	Implementation of initiatives related to increasing private savings (e.g., savings sukuks, NSE) and attracting foreign investors	National Savings Entity / National Debt management Center / CMA	Upon launch of National Savings Entity / Retail Savings Sukuks
	Limited appetite by private sector to tap into DCM for funding	General	Introduce private placement model to incentivize private companies to use DCM and reduce single obligor limit to diversify lending books of banks	CMA / SAMA	Upon approval of Game-Changer “Deepen debt capital markets”
Setup a National Savings Entity	Difficulty in obtaining required license to operate	Program-specific	Ensure alignment / buy-in from senior leadership / stakeholders through extensive and focused communication	MOF	Upon approval of Game-Changer “Setup a National Savings Entity”
	Limited appetite from consumers to products offered	General	Launch large scale marketing campaigns and amend product structures, where needed	NSE – once setup	Upon launch of National Savings Entity

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رؤية  
VISION 2030  
المملكة العربية السعودية  
KINGDOM OF SAUDI ARABIA



Financial Sector  
Development Program

